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The University of Montana

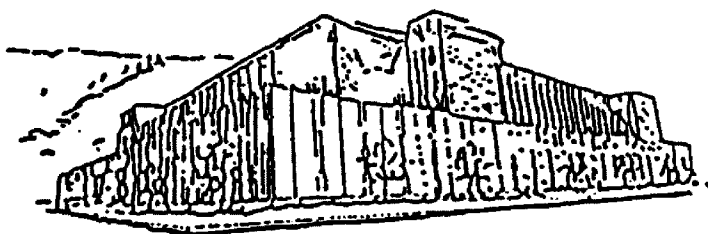
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PERSONNEL DEVELOPMENT AND CROSS CULTURAL MANAGEMENT
IN THE PEOPLE'S REPUBLIC OF CHINA
A CASE STUDY AND HISTORY OF XIAN JANSSEN PHARMACEUTICAL, LTD.

by

Michael Sean Molloy

B.A. Whitman College, 1991

presented in partial fulfillment of the requirements

for the degree of

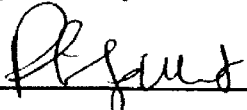
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Chinese History, Economy, and Language

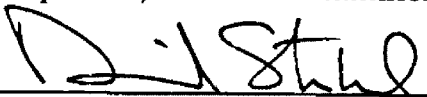
The University of Montana

1997

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Personnel Development and Cross Cultural Management in the People's Republic of China; A Case Study of Xian Janssen Pharmaceutical, Ltd. (99 pp.)

Director: Philip West

 8/28/97

The global economic trend toward high value enterprises presents a growing need for corporations to become more people-oriented and customer-driven in international markets. Xian Janssen is identified as a successful model by these standards.

The case of Xian Janssen is defined in terms of ownership and administrative responsibility between partners at both corporate and joint venture levels. The company's scope of business and record of success are examined, with an emphasis on the standards and performance expected by China's Top Ten Joint Venture Selection Committee.

Xian Janssen's history can be divided into three stages that have been shaped by both external and internal events. The first stage mirrored the raw opportunities created by China's initial market reforms. This period was followed by a change in management priority from production to sales that coincided with Chinese political turmoil in the years surrounding 1989. Upon meeting these challenges, Xian Janssen began to move forward with new direction.

Xian Janssen's economic performance is examined on an annual basis, focusing on the post-crisis period when sales became a primary management concern. Investment, sales and profit figures are analyzed in terms of the company's growth rate, and basic growth patterns are attributed to market conditions and management decisions.

Xian Janssen's successful management techniques are analyzed in terms of their organizational development techniques that foster effective recruitment, training, and retention of top quality managers.

China's cultural tradition draws on its historic past, its family-oriented society, and an emphasis on human relationships. Xian Janssen has incorporated each of these traditions into its management culture, translating into successful business partnerships. The programs that foster these cultural values are examined with a view as to how each program has enhanced the company's scope of business.

The rise of China is reviewed as a challenge to many long-held Western assumptions. Xian Janssen's Strategic Partnership initiative is introduced as a culmination of its management policies. Xian Janssen's achievements are then viewed for their ability to balance strategic interests with cultural identities in the emerging web of global commercial relationships.

ACKNOWLEDGMENTS

The completion of this professional paper has been realized through the encouragement, advice, and support of many individuals that have helped me throughout the three-year process of completing my M.I.S. degree. I will always be grateful to those people that have inspired me to attain this goal, and I owe them my sincere thanks.

My genuine appreciation goes out to Jerry Norskog, the former Executive President of Xian Janssen, whose friendship and mentoring have seen me through the scope of this and other important projects dealing with China. For his constant support and encouragement on both personal and professional levels, and for his overall enthusiasm and respect for the Chinese people, I will be forever grateful.

I have a similar appreciation for those company managers and employees who cooperated with me in the process of interviewing and researching this project during my time at Xian Janssen. In particular, Luan Jiang Hong and her colleagues in the Public Relations department were invaluable in their untiring efforts to help me schedule meetings and extract pertinent records and information.

For encouraging me to plan and get through the challenges and isolation of the M.I.S. degree, I am greatly indebted to the members of my graduate committee. As Chairperson, Dr. Philip West was a constant source of support, offering scholarly suggestions, procedural leadership, and genuinely appreciated personal guidance. Dr. Dennis O'Donnell was effective in helping me through the economic intricacies of my analysis and demonstrating that there can be an effective balance between scholarship and business. Dr. Evan Denney also provided helpful practical suggestions to my work and encouraged me with a shared appreciation for China and the Chinese.

For enriching my experience of living in China, I cannot fail to mention my Chinese language teachers, friends, and colleagues that have inspired my personal commitment to Chinese studies. Dr. Alice Zhang, in particular, helped me to set my dreams and plans into a concrete reality by encouraging my earliest ideas about the M.I.S. program.¹ Professors Shao Wenguang and Shi Songquan were also helpful in upholding the Chinese values of discipline and patience in my language studies.

I am especially grateful to the underlying support of family and friends, whose support and encouragement helped provide the focus needed to overcome the many trials I encountered from Beijing to Missoula. The support of these personal relationships is what continues to enrich my academic and professional pursuits, and it is to these people that this work is dedicated.

¹Throughout this text I have done my best to present Chinese names and words in their Pinyin form, choosing to opt for consistency in spelling unless otherwise stated in a publication. In cases where a source has quoted in another romanization form of a Chinese name or word, I have honored the original author's spelling. My apologies to any individuals who prefer Wade-Giles or other romanized versions of their Chinese name.

TABLE OF CONTENTS

ABSTRACT.....	ii
ACKNOWLEDGEMENTS.....	iii
CONTENTS.....	iv
 I - EXECUTIVE SUMMARY AND METHODOLOGY :	 1
II - INTRODUCTION :	4
III - CHAPTER 1 : AN OVERVIEW OF XIAN JANSSEN	9
A - BACKGROUND AND EARLY HISTORY	9
B - JV PARTNERSHIP	10
C - STRUCTURE.....	10
D - BELGIAN JANSSEN	11
E - JOHNSON & JOHNSON	11
F - INVESTMENT	12
G - PRODUCTS AND SCOPE OF BUSINESS	12
H - XIAN JANSSEN'S RECOGNITION IN CHINA.....	13
IV - CHAPTER 2 : HISTORY	16
A - CHAPTER 2-A : EARLY HISTORY.....	17
1. XIAN JANSSEN AND CHINA'S ECONOMIC REFORM.....	17
2. CHINA'S ECONOMIC REFORM	18
3. TRADE.....	18
4. CHINA BELGIUM PROJECT # 01 :	19
5. FOREIGN CAPITAL AND INVESTMENT	21
6. XIAN JANSSEN JOINT VENTURE CONTRACT	22
B - CHAPTER 2-B : XIAN JANSSEN'S CRISIS PERIOD	24
1. THE REFORM PROCESS WORSENS	24
2. XIAN JANSSEN AND 1989.....	25
3. CHALLENGES FACING XIAN JANSSEN AT END OF CRISIS PERIOD	28
a INVESTMENT AND CASH MANAGEMENT	28
b MANUFACTURING AND LOCATION	29
c TRADE.....	30
d JV PARTNERSHIP	30
e SALES AND MARKETING	31
f DISTRIBUTION	31
g HUMAN RESOURCE DEVELOPMENT	31
h COMMUNICATION	32
C - CHAPTER 2-C : OVERCOMING CHALLENGES	33
1. CHINA'S ECONOMIC TAKEOFF	33

2. XIAN JANSSEN'S TURNAROUND : 1991-1994.....	34
3. COMPANY UNITY	35
a FROM "WARRING STATES" TO A "NEW DYNASTY"	35
4. COMPANY CULTURE.....	36
a "THERE IS NO SUCH THING AS A FREE LUNCH"	36
b "LET'S MOVE IT".....	38
c "DEDICATED TO SCIENCE, DEVOTED TO HEALTH"	39
5. MANDATE FOR CHANGE.....	40
a DONATIONS AND INFLUENCE—PUBLIC RELATIONS "CHINESE STYLE" .	42
b CASH MANAGEMENT, TRADE, & FOREIGN EXCHANGE CONVERSION ...	44
V - CHAPTER 3 : XIAN JANSSEN'S ECONOMIC HISTORY.....	47
A - INVESTMENT	47
B - SALES	48
C - PROFIT	50
D - TAX REVENUE	51
VI - CHAPTER 4 : PEOPLE-FIRST PERSONNEL DEVELOPMENT	53
A - PERSONNEL DEVELOPMENT.....	53
B - RECRUITMENT.....	54
C - TRAINING	55
D - RETENTION	57
VII - CHAPTER 5 : CROSS CULTURAL MANAGEMENT TECHNIQUES	60
A - APPEALING TO CULTURAL AND HISTORICAL IDENTITY	60
B - UNITY AND FAMILY VALUES IN THE WORKPLACE	62
C - GUANXI AND THE HUMANIZING OF BUSINESS RELATIONSHIPS	65
1. MEDICAL EDUCATION-RESEARCH PROGRAM.....	68
2. GOOD MANAGEMENT PROGRAM (GMP).....	69
3. SUPPLIER QUALITY PROGRAM (SQP)	69
4. COMMUNITY DONATIONS.....	70
5. JANSSEN RESEARCH COUNCIL (JRC)	70
VIII - CHAPTER 6 : CONCLUSION.....	74
A - A MODEL FOR SUCCESS	74
B - STRATEGIC PARTNERSHIP	75
IX - TABLES AND CHARTS.....	79
A - CAPITAL INVESTMENT BY YEAR.....	79
B - TOTAL CAPITAL INVESTMENT BY YEAR	80
C - GROSS SALES FIGURES BY YEAR	81
D - OPERATING PROFIT BY YEAR	82

E - OPERATING PROFITAS A %OF GROSS SALES BY YEAR	83
F - ANNUAL NET PROFIT FIGURES	84
G - TOTAL TAX REVENUE CREATED BY YEAR	85
H - XIAN JANSSEN ECONOMIC HISTORY	86
X - TIMELINE	87
XI - REFERENCES	97

I - EXECUTIVE SUMMARY AND METHODOLOGY :

This case study of one of China's best-recognized joint ventures was undertaken in an attempt to draw important cross cultural management lessons from a foreign invested enterprise that has established itself as a model for success within the Chinese market. While Beijing Jeep was the standard for judging foreign ventures throughout the 1980s, Xian Janssen Pharmaceutical, Ltd. is receiving similar recognition in the 1990s.² Having been three times ranked as the country's top joint venture, Xian Janssen has become a favorite of China's investment officials. As a regular sponsor of medical research awards and educational training for doctors and medical officials, the company has also become a show piece for China's pharmaceutical sector. Xian Janssen owes its success to a people-oriented approach that incorporates both Chinese and Western cultural models in its management training techniques.

The issue of cross cultural management within Xian Janssen was chosen as a focus because it offers a model for learning from management success, rather than failure. While much can be learned from studies like Beijing Jeep that document the wide gap of understanding between western businesses and Chinese partners, the writer intends to explore management techniques that have proven themselves effective in practice by both Western and Chinese standards.

The overall objective of this study is to document the history of Xian Janssen's development, highlighting those management programs that may increase understanding for knowing how to successfully navigate China's often confusing business environment. As a model for learning, the Xian Janssen precedent may inspire more objective perspectives and well-tested alternatives for future business investors in China.

As a case study, the structure of this report is both chronological and topical. An introduction assesses recent changes in the global economy that have encouraged foreign investment in China, especially people-oriented enterprises like Xian Janssen. Chapter One then introduces background information in terms of the company's organization, structure, and scope of business. Chapter Two places the timeline of Xian Janssen over China's own series of events in the reform period, dividing its analysis into three distinct stages. Chapter Three provides an economic record of the company's

²Anne Stevenson-Yang, "Putting the Corps into Corporate," The China Business Review, Nov.-Dec. 1994, p. 50.

performance, also tracing the chronological development of events. Chapters Four and Five analyze the specific programs that distinguish the company in terms of personnel development and cultural perspectives. Chapter six provides some conclusions about Xian Janssen's experience in China, pointing to the company's ability to forge strategic partnerships as a model that brought mutual benefits to the company and its surrounding community.

The methods employed in compiling the information for this study included both case study and literature research. Specifically, the writer was involved in a joint effort to compile historical data and personal accounts about Xian Janssen in preparation for the company's tenth anniversary.³ Internal sources primarily consisted of employee essays, personal interviews, business diaries, and media archives. Relative industry articles, economic studies, and cross cultural literature made up the remainder of the research.

The writer's personal relationship with Xian Janssen also extends beyond the scope of this project. A personal friendship with the company's president, Jerry Norskog, began in Xian in 1991. While working as an English teacher at the newly producing factory, many additional friendships were created that continued through 1994 and 1995, when the research for this project was undertaken. It is my hope that my personal involvement with the events and personalities of this study will add to, rather than detract from its value.

While I have many reservations about the scholarly credibility of assuming too much about the success of Xian Janssen, I do believe that the company's experience has much to teach potential investors in China. The company has made mistakes in the past that deserve more attention than they will get here. It is not my intention to provide a full critique of Xian Janssen's business practices, but rather to highlight those things it has done well. Whatever else one might say about Xian Janssen, the company has clearly established itself as a model for success through its local recognition and steady business growth. Whether or not the company remains the success it is today is open to question, and the answer will be determined by the company's ability to adjust to the changing conditions of China's dynamic business environment.

³Interviews and research conducted through Xian Janssen's Public Relations Department led to the publication in Beijing of "Our Home," a collection of Chinese essays and interviews prepared for the company's 10th anniversary celebration of October 22, 1995.

As this is a singular case study and focuses largely on the policies of one company manager, it should be understood that the paper is not intended to make unwarranted claims about doing business in China. Any study that aims to provide universal generalizations about business in China would by necessity include comparative studies of other ventures, both successful and otherwise, in trying to make reliable generalizations about management models in China.

Rather, this study is a record of one company that has proven its ability to succeed as a socially active enterprise within its niche of China's growing consumer market. Given the increasing importance of cross cultural management in China's growing market, it is my hope that the experience of Xian Janssen can provide important lessons in this regard.

June 9, 1996

Missoula, Montana

II - INTRODUCTION :

Abstract:

The global economic trend toward high value enterprises is defined as a growing need for corporations to become more people-oriented and customer-driven in international markets. Xian Janssen is identified as a successful model by these standards. As an unpredictable but highly explosive economy, China poses unique challenges that demand long-range planning and a focus on relationships and cross cultural literacy. It is Xian Janssen's ability to train its workforce, cater to its market, and incorporate cultural management perspectives that makes it a standard to uphold in both the Chinese and global contexts.

In today's world, the traditional notion of distinct national economies is being redefined by the increasing mobility of trade, investment, and capital flows. As borders have become more porous economically, the concept of *national* products, corporations, and industries now seems outdated. Economist Robert Reich defines this trend as a shift toward business groupings of "high value enterprise, which are replacing the old core pyramids of high volume enterprise...."⁴ This notion of high value enterprises refers to mobile and often multinational networks that cooperate to add value to products as they become specialized for specific markets.

These high value networks are by necessity more complex than the volume-oriented corporations of the industrial age, which were hierarchical structures based in one national economy. For these enterprises, there was never any doubt that ownership and control remained in the corporation's base country. If foreign subsidiaries existed, their function was extraction or processing. After the sale of products, revenues were eventually returned to corporate headquarters.

According to Reich, this kind of top-down control and centralized ownership has become impossible with the emergence of web-like organizations of high value enterprise. Industrial markets have grown increasingly specialized with different niches to be filled, which in turn have created demands for highly specialized value-added products. Consequently, wealth is now flowing to groups that have accumulated the most valuable skills in problem-solving, problem-identifying, and strategic-brokering.⁵ The emerging high-value economy does not rely on large-scale production, because products now need to be molded and adapted according to specialized markets not bound by national borders. As a result, both corporations and the products they create

⁴Reich, p. 110.

⁵Reich, p. 111.

are beginning to transcend borders, while losing their previously distinctive national characteristics.

As the world shrinks through efficiencies in telecommunications and transportation, groups in one nation are able to cooperate with those in another nation to add the most value to customers located in almost any location. Intellectual or financial capital can come from almost anywhere and can be added immediately.

In this atmosphere, national corporations are being forced to become international composites. What is traded between nations is now less finished products and more specialized problem solving. Emphasis has shifted in many cases from the product to the employee, as workers must be trained and updated in skills that serve changing customer needs. The growing access to foreign markets means that cross cultural literacy has become an important skill for corporations that are now required to manage the intricacies of different consumer markets. In order to study and appreciate this growing web of economic connections, we must focus our attention on those business and economic entities that transcend borders, focus on personnel training, and are committed to identifying and meeting customer needs in their respective markets.

As one of China's most respected joint venture enterprises, Xian Janssen Pharmaceutical, Ltd. is an effective lens for viewing the process of economic internationalization in China. A fifty-two percent-owned Belgian Subsidiary of U.S. pharmaceutical giant Johnson & Johnson, the Sino-Belgian partnership is truly an international composite.

With its enormous population of over one billion, China has become an irresistible attraction to foreign investors, many of whom dream of cracking its market and selling just one product to each Chinese. Among the more than 278,000 foreign-funded enterprises now in China, Xian Janssen may be one of the few to have realized that dream, already having sold over one billion Motilium pills for treating stomach digestion.⁶

⁶Qu Yingpu, "Foreign Investment and Successful Joint Ventures in China," speech given at Working with China: Trade, Investment, and Agriculture, June 29, 1996, Bigfork, MT. As Associate Director for the China Daily, Mr. Qu gave figures about foreign-funded enterprises recognized by Beijing as of April, 1996.

The company has every reason to be proud of its performance, boasting a sales record of 2.6 billion yuan (\$313.5 million) between 1990 and 1994.⁷ In the same period, the company paid 320 million yuan (\$38.6 million) in taxes and 300 million yuan (\$36.1 million) to its shareholders.⁸

Today Xian Janssen is known as the cream of the crop among China's joint ventures. Currently the largest pharmaceutical firm in China, it is the only company to have twice⁹ been awarded the distinction of the best joint venture in the country by the country's top investment officials.¹⁰

Managers insist that the venture's success is driven by an emphasis on organizational development and cross cultural sensitivity in the management of its human resources.¹¹ Specifically, Xian Janssen takes pride in its company recruitment, training, and retention of staff. The company's president, Jerry R. Norskog, estimates that he and other senior managers spend up to seventy percent of their time on personnel issues. "A hiring decision is much more grueling than spending one million dollars on advertising," he says. "I personally approve every hire; advertising, I delegate."¹²

While many companies realize the necessity of effectively managing local personnel, Xian Janssen's training techniques go a step further. The company assumes that it is in a race against time to prepare and train effective managers, and it takes a "people first" approach to its organizational development. "In the United States, it takes a minimum of five to seven years to develop a first-class manager," says Norskog. "In

⁷At the time of writing, the RMB was being traded at 8.31 to one U.S. Dollar.

⁸Qu Yingpu, "Sino-Belgian JV Tapping Big Market," China Business Weekly, July 23-29, 1995, p. 1.

⁹While figures were not yet officially published for 1995, China's Top Ten JV Selection Committee informed Xian Janssen managers in May of this year that it would be awarded the top joint venture yet again at the 1996 awards ceremony. As the only company to have won the award more than once, the 1995 selection makes for an unprecedented third time the company has been recognized as China's best foreign venture.

¹⁰"China: Top Ten Joint Ventures," in China in Brief, Edited and Published by New Star Publishers, First Edition, 1994, p. 3.

¹¹Personal interview with Jerry R. Norskog, 23 July, 1995.

¹²"Putting the Corps into Corporate," p. 50.

China, we don't have that much time. Waiting just six months to launch a product here means our costs will be twenty percent higher and there will be more competition. Without highly skilled managers and sales people, our business would suffer."¹³ Therefore, quickly developing leadership among local managers and instilling a strong set of corporate values is perceived as critical to the company's success.

In addition to its "grow your own" philosophy, Xian Janssen also promotes a strong customer-driven attitude in its management and workforce. Beginning with its credo of "Dedicated to Science and Devoted to Public Health," workers are encouraged to keep a service-oriented attitude both inside and outside the company. Each department is asked to identify its primary and secondary customers in other departments as well as in the consumer market and to measure success by means of customer satisfaction.¹⁴

As a foreign managed enterprise, Xian Janssen's top management team tries to find Chinese cultural models for teaching management and sales strategies, utilizing parts of Sun Zi's war strategy, Mao Zedong's philosophies of self-reliance, and Liang Zhuge's craftiness in Romance of the Three Kingdoms into management training workshops.¹⁵ The underlying assumption is that there is nothing foreign about Western management theories and that there are many inspiring parallels to be found in Chinese history.¹⁶

As a complex and highly explosive economy, China poses unique challenges that demand long range planning and a focus on relationships and cross cultural literacy. It is Xian Janssen's ability to train its workforce, cater to its market, and incorporate cultural management perspectives that make it a standard to uphold in both the Chinese and global contexts.

What follows is an organizational and historical overview of Xian Janssen's experience in the China market. Like the Buddhist scriptures at Chang An's Big Goose Pagoda, this western joint venture has patiently withstood the test of time,

¹³Interview with Norskog, 24 July, 1995.

¹⁴Gu Lihong, "Winning the Heart of the Customer--Managing Concepts and Secrets of Success of Xian Janssen," Company Report translated by Shi Songquan, taken from business report of Gu Lihong, 1995, pp. 1-5.

¹⁵ "Putting the Corps into Corporate," p. 51.

¹⁶Interview with Norskog, 24 July, 1995.

incorporating Chinese characteristics while at the same time affecting change on the environment around it.

III - CHAPTER 1 : AN OVERVIEW OF XIAN JANSSEN¹⁷

Abstract

Western joint ventures in China have met with extreme difficulties because operations occur between a privately owned business and state-run public agencies that sometimes have conflicting goals about investment and resource allocation. To reveal the context of these relationships, the case of Xian Janssen is defined in terms of ownership and administrative responsibility between partners at both corporate and joint venture levels. The company's scope of business and record of success are examined, with an emphasis on the standards and performance expected by China's Top Ten Joint Venture Selection Committee.

A - BACKGROUND AND EARLY HISTORY

Xian Janssen is a Sino-Belgian pharmaceutical joint venture enterprise that was legally established October 22, 1985. Located in Shaanxi province's capital city of Xian, the company has become one of China's foremost business success stories. The original partnership was made between Janssen Pharmaceutica of Beerse, Belgium and the Hangjiang Pharmaceutical Factory of Hangzhong, Shaanxi.

As the founder and CEO of Janssen international, Dr. Paul Janssen initiated momentum for the joint venture after making a trip to Shaanxi province in 1982. After a study that was commissioned by the State Economic and Trade Commission, permission was granted for Janssen N.V. and Hangjiang Pharmaceutical to jointly produce C Methyl Benzyne to be sold on the Chinese national market. After approval by the State Planning Commission, a joint venture license was awarded in October of 1985. Construction of new facilities was undertaken and completed in March of 1989. Within two months, the first products were coming off the assembly line and being distributed. Sales reached 189 million yuan during the company's first full year of sales, making Xian Janssen the largest pharmaceutical joint venture in China at the time.¹⁸

¹⁷The figures obtained for the case study were gathered by the writer during 1994-1995 with the assistance of Xian Janssen's Public Relations Department. The majority of the research was done to compile data for the company's ten-year anniversary celebration in October of 1995. Additional research and interviews were conducted at the Top Ten Joint Venture awards ceremony (sponsored by Xian Janssen) in July of 1995. Sources included company press releases, media articles, State Pharmaceutical Administration figures, published reports by the Top Ten Selection Committee, and extensive personal interviews.

¹⁸Ma Lie and Liu Dizhong, "Official Operation Starts for Xian Janssen," China Daily, May 6, 1991, p. 1.

B - JV PARTNERSHIP

As is implied by the name, Xian Janssen is a joint venture that shares responsibility, investment, and profit between two parties. The term of the partnership arrangement is for fifty years, ending in 2035.¹⁹ On the Western side of the equation, Janssen Pharmaceutica of Belgium is designated as a fifty-two percent owner. Janssen itself was purchased by Johnson & Johnson International, however, and management is ultimately answerable to Johnson & Johnson corporate headquarters in the United States. As one of Johnson & Johnson's largest subsidiaries, Janssen exercises considerable autonomy in its management of the Chinese joint venture. Nevertheless, Johnson & Johnson stockholders are the principal constituency to consider in Janssen's policy decisions.

The Chinese side of the joint venture also contains more than one entity and holds forty-eight percent ownership. The principal representative of the Chinese partnership is the Pharmaceutical Industrial Corporation of Shaanxi Province. In addition, responsibility is shared by the National Chinese Pharmaceutical Industrial Corporation, the China National Pharmaceutical Foreign Trade Corporation, and the Hangjiang Pharmaceutical Factory.

C - STRUCTURE

Management of the partnership is overseen by a twelve member Board of Directors. Of the twelve representatives, six are Chinese and six are Western managers affiliated with Janssen N.V. The director, or chairperson, is Chinese and the Vice-Director is Belgian. Two annual meetings are held by the Board, which oversees the management responsibility system. The policy of everything from manufacturing to repair and maintenance is overseen by the 12 board members. The daily management is carried out by the Executive President and other Janssen administrators through the main office in Beijing. Operations and production are overseen by the Deputy Vice-President and other Chinese representatives at the main factory complex in Xian.

¹⁹Xian Janssen Public Relations Department, Brochure, 1995, p. 5.

D - BELGIAN JANSSEN

Janssen Pharmaceutica, N.V. was founded in 1953 by Dr. Paul Janssen. The company specializes in the research of medicine and pharmaceutical products. The company has developed more than seventy new pharmaceutical products since its inception, making it one of the most prolific pharmaceutical developers in the world. Its major global research offices are located in Belgium, Germany, England, France, Spain, and the United States. As of 1993, Janssen's Belgian employment staff stood at 3,280, with technical workers comprising 1,178, or about one-third of the total.

In 1992 world sales volume reached \$ 745 million U.S. dollars,²⁰ 84 percent of which was earned through export sales.²¹ Since 1953, twenty-five new medicines and patents have been developed. Research and Development expenses reached \$159 million in 1992. This accounts for twenty-one percent of annual sales volume, and represents more than five percent of Belgium's total annual medical research investment.

Janssen's worldwide employment now stands at over 11,000 people. In addition to the six international research centers, manufacturing is done in eleven countries with branch offices in thirty-six countries. Product sales are even more international, with sales occurring in 150 countries.

Beginning in 1961, Janssen has acted as a subsidiary of Johnson & Johnson International of the United States. Johnson & Johnson acquired the Belgian company in that year, and Janssen has since become the company's largest contributing subsidiary worldwide. Dr. Paul Janssen has left his post as Janssen's CEO but still maintains an active role in overseeing company development. Janssen himself was the principal initiator of the Xian joint venture, and his support continues to be a vital element of the company's success.

E - JOHNSON & JOHNSON

As the Corporate owner of Janssen, Johnson & Johnson is involved in every major policy decision affecting Xian Janssen. Chief Executive Officer Ralph Larsen oversees a corporate entity that is consistently ranked in the top fifty largest companies in the

²⁰Calculated using 1992 exchange of \$1 USD = \$32.66 BFR.

²¹Xian Janssen Public Relations Department. 1993 press release, p. 6.

world. In 1990, for example, his company was rated as the world's 30th largest, with annual sales of \$14.138 billion U.S. dollars. Internationally the company owns 172 branches with 82,000 total workers, and has operations in fifty-five countries.

Structurally, Johnson & Johnson is comprised of three different departments. Consumer goods and specialized goods are substantial but less lucrative departments next to the pharmaceutical department. If the three departments are combined, there are twenty-one products that exceed \$50 million in annual sales volume. Of those, twelve are over \$100 million annually. In the pharmaceutical market itself, Johnson & Johnson ranks among the top five U.S. companies and the top eight worldwide. Janssen is the largest subsidiary contributor owned by the American giant, followed by MacNeil and Ocer Biologicals.

F - INVESTMENT

In order to begin operations, Xian Janssen invested over \$152 million yuan in fixed assets, 52 percent of which was provided by Belgian partners.²² The foreign currency investment translates into roughly \$ 805 million Belgian francs, or \$ 21.2 million U.S. dollars. In terms of real estate, the Xian factory complex has a total area of 168 acres, with a building area of 3,513 square meters.²³ Space includes a main prep factory, chemical plant, power plant, sewage disposal facilities, warehousing, and the main office and dining building. In addition to its properties in Shaanxi, Xian Janssen has management and distribution offices in Beijing, Shanghai, and Guangzhou. Increasingly, sales offices are also being opened in the capital cities of each province.

G - PRODUCTS AND SCOPE OF BUSINESS

After an initial compensation trade agreement with the Hangjiang factory, Xian Janssen's production began in 1989. To begin with, eight patented Janssen products were chosen for their assumed demand and marketability in China. As the products were well-received and have seen continued increases in sales, one or two new products from Janssen N.V. are introduced and marketed each year. Consequently, Xian Janssen now sells twelve patented Janssen products in the China market. While some

²²Ma Lie and Liu Dizhong, p. 1.

²³Xian Janssen Public Relations Department. 1994 Press Release, p. 4.

product materials are supplied elsewhere, the majority of the product line is purchased and produced in China according to Janssen technological and patent standards. The current product list is as follows.

- Prepulsid (Gastrointestinal Prokinetics)
- Motilium (No. 1 Selling Gastrointestinal In China)
- Sporanox (Oral Antifungal)
- Daktarin (No. 1 Topical Broad-Spectrum Medicine In China)
- Nizoral (Oral Antifungal)
- Hismanal (Oral Antihistamine)
- Sibelium (Migraine And Vertigo Treatment)
- Imodium (Anti-Diarrhoeal)
- Vermox (Intestinal Tract Anti-Parasitic)
- Haldol Decanous IM (Long-Term Anti-Psychotic Treatment)
- Triatop Lotion (Anti-Dandruff Shampoo)
- Livostin (Antihistamine)

Four of the above products are listed on the World Health Organization's basic medication list and all have undergone extensive market research before being licensed in China. The newest products are Sporanox, Prepulsid, Triatop, and Livostin, which have all been introduced since 1993.

H - XIAN JANSSEN'S RECOGNITION IN CHINA

By building its image of quality, value, and reliability in production and marketing, Xian Janssen has become a household name in China today. Ten years after the signing of its joint venture contract, the company is now known to doctors, officials, and laymen alike as China's leading pharmaceutical joint venture. In 1992 it was ranked as the twelfth most established corporation, Chinese or otherwise, to be operating in China. It has received numerous provincial awards, including the Shaanxi Environmental Protection Bureau's number one ranking in 1993. Xian Janssen's name recognition has in fact become so popular, that it was discussed at Johnson & Johnson's annual leadership conference as a potential marketing tactic for its other China operations.²⁴

By far the most noteworthy recognition, however, is Xian Janssen's consistent performance as one of China's top-ranked joint ventures. Beginning in 1988, the Chinese government has sponsored an annual contest in conjunction with the Economic Daily to determine and rank the country's ten best joint ventures. In order to

²⁴ "Frameworks for Growth" video--Johnson & Johnson Presidential Leadership Conference, May 10, 1995.

be eligible, companies must invest a minimum of \$10 million U.S. dollars. The ranking process is determined by the taxation bureau, statistical analysis, and expert evaluations. The following nine statistics are weighed by statisticians in their evaluations :

- Profit Margin Through Investment
- Profit Margin Per Person
- Labor Productivity
- Accumulative Total
- Investment Per Person
- Exchange Equalization
- Output/Cost Ratio
- Export Rate
- Input Of Research And Development

In addition to the above considerations, appointed experts must weigh the technical standards employed by the company, as well as overall business strategy and benefits distributed to communities.

After six years of awards being made, Xian Janssen has consistently been one of the top finishers in joint venture rankings. While the company currently stands as the number two joint venture in the country, it was listed first in 1993²⁵ and is likely to regain its top spot next year, due to record breaking sales in 1995. While this is not an absolute gauge for the company's success, the contest is well-covered by the media, and winners receive millions of dollars worth of free advertising and added name recognition. Xian Janssen's domination of the event is evident when considering that the government allowed the 1995 conference to be hosted in Xian and funded by Xian Janssen.²⁶ This is the first time that a company has taken such a confident initiative in the joint venture ranking process.

The following table summarizes the high degree of recognition the company has received in the 1990s :

Year	Top Ten Joint Ventures in China	Top 500 companies in China (Pharmaceutical)	Top Ten National Pharmaceutical Companies	Shaanxi Province Best Industrial Enterprise
'91	#4	#1		#1

²⁵ **Xian Janssen News** , Xian Janssen Public Relations Department, October 28, 1993, p. 4.

²⁶ The "1995 10 Best Joint Ventures Award Ceremony" was held at the New World Hotel in Xian. The event was sponsored entirely by Xian Janssen, who moved from 1st to 2nd in the annual rankings.

'92	#1	#1		#1
'93	#1	#2		
'94	#2		#1(1st annual)	#4

Given its impressive record in community awards, it would seem that Xian Janssen has done many things right in managing its Chinese partnership. A close look at the company's history reveals that this recognition has not come without enduring difficult challenges that required innovative solutions.

IV - CHAPTER 2 : HISTORY

Abstract

Xian Janssen's history can be divided into three stages that have been shaped by both external and internal events. The first stage mirrored the raw opportunities created by China's initial market reforms. This unpredictable period was followed by a change in management priority from production to sales that coincided with Chinese political turmoil in the years surrounding 1989. Upon meeting these challenges, Xian Janssen began to move forward with new direction, keeping pace with an equally vibrant and growing Chinese market. As this history suggests, Xian Janssen has experienced a lead-lag relationship with its surroundings, sometimes pressing for new opportunities and other times having to adapt to local ideas and events.

A - CHAPTER 2-A : EARLY HISTORY

Things here weren't always like they are today. When we first arrived here I had to put myself in Chinese shoes and think about what life was like for them. We had to train people that were taught to revere, quietly obey, and get out of the way of leaders without asking questions. Communism still lingered and people remembered the cultural revolution. History had taught people that relationships mattered more than performance and success was to be avoided because "fat pigs got eaten." Our western management ideas were like telling them to jump off a cliff, but we started pitching it to them over and over, looking for ways to make it meaningful for them and rewarding even the smallest twitch of an effort.²⁷

These words were spoken by Xian Janssen president Jerry Norskog at the World Trade Center's Bierstube on a hot July evening in Beijing. Norskog had just finished hosting China's 1994 Top Ten Joint Venture awards ceremony earlier in the month, and his company had received the number 2 award after reigning at number 1 for the previous two years. In looking at its current performance, it would seem improbable that this incredibly successful company could have been on the verge of a total collapse just five years earlier. To listen to his version of the story, however, it becomes apparent that Xian Janssen's level of success has been achieved only after hard-fought battles in overcoming cultural and political challenges within the Chinese business environment and the market. A look at the interplay between the company and its political and cultural environment suggest that both histories have had to adapt to changing assumptions.

1. XIAN JANSSEN AND CHINA'S ECONOMIC REFORM

Xian Janssen has evolved over a period of more than ten years, and the history of that development is bound to China's own economic timeline.²⁸ In less than two decades China has gone from being an isolated, state-run economy to becoming a major participant in the world economy. This process has been sped up by the interplay of government policies and investors like Paul Janssen, who have been quick to recognize the potential of opening the world's largest potential consumer market. In order to

²⁷The writer paraphrases President Jerry R. Norskog, speaking about his first years of experience at Xian Janssen in a personal interview in Beijing, July 24, 1995.

²⁸Chart #7 provides an overview of China's timeline for economic reform and Xian Janssen's development. China's historical information in the chart was taken primarily from China Since 1978, Mackerras, Taneja, & Young eds. (New York: St. Martin's Press, 1994). Company information was taken from the interviews, brochures, diaries, and reports mentioned in the bibliography.

appreciate the full picture of Xian Janssen's history, we must view it within the context of China's own historical development, beginning in the reform period of the late 1970s.

Economic changes in China have affected Xian Janssen's development, and in many cases they have progressed as mirror images. A look at the trends that moved China toward integration into global trade forums, capital markets, and opening to foreign investment will provide grounding for understanding Xian Janssen's success. These trends can be traced to the CCP's first major economic reforms, beginning in the 1970s.

2. CHINA'S ECONOMIC REFORM

The term "economic reform" in China refers to the set of policies and state-sanctioned institutional changes occurred at the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party in December of 1978.²⁹ The period that has elapsed since this date has witnessed the longest and largest economic expansion in China's entire history. More importantly, it has seen China linked to the international economy through trade and finance to an unprecedented degree. In terms of internationalization, reform has elicited its greatest change in the realm of trade and foreign investment.

3. TRADE

Initial reform policies in the trade sector aimed to expand the role of trade in China's economy by introducing decentralized structures to oversee exportation. Beginning in 1978, a small number of producers were allowed to engage directly in international trade or business with foreign partners. Enterprises were permitted to retain part of the foreign exchange earnings, and preferential exchange rates were introduced to encourage trade. Several coastal trade zones were targeted in 1980 with the creation of Shenzhen, Zhuhai, Shantou, and Xiamen Special Economic Zones, or SEZ's. All of these efforts aimed at decentralizing the old trade system, in which power was highly centralized, management unified, and monopolized by state structures.

²⁹Ross Garnaut, "China's Reforms in International Context" in **Economic Reform and Internationalization**, ed. Ross Garnaut and Liu Guoguang (Australia: National University, 1992), p. 29.

4. CHINA BELGIUM PROJECT # 01 : ³⁰

The initial contract that led to Xian Janssen's joint venture was a cooperative agreement for compensation trade that sought to take advantage of early trade reforms. As a response to changes in trade regulations in China, Dr. Paul Janssen decided to pursue contacts that he had made on his first trip to China's Shaanxi region in the late 1970s. As the founder of a growing corporation, Dr. Janssen was interested in the potential to bring his patented pharmaceutical product to China's large and isolated market. When trade and investment policies began to open to the outside world at the Third Plenum of the Communist Party in 1978, an opportunity arose.

Acting on the new policy of openness, a Chinese Import/Export company organized an informational pharmaceutical seminar in Tianjin during the summer of 1979. Two Belgian representatives from Janssen were sent to make presentations for possible investment, but communication was difficult. After being isolated from the outside world for 30 years, most Chinese were very tentative, and technical English was an imposing obstacle to overcome.

The meeting lasted for three days, and Janssen delegates did their best to communicate their production process, design drafts, and quality specifications to any potential partners. After some cautious considerations, delegates from Hangjiang Pharmaceutical Factory submitted a proposal to Janssen the following month. The proposal was to undertake a "compensation trade" partnership in which Janssen would provide technical information and equipment in return for Hangjiang factory's labor and material being sold at a preferential price.³¹

For Janssen, this was an opportunity which permitted them to import materials to make and sell Mebendazole (a chemical component of Janssen products) in China. In return, they had to provide the technical equipment and know-how to aid production. The Chinese factory gained technological enhancement and part ownership in the

³⁰Much of the information regarding Janssen's first compensation trade project is taken from a personal interview with Gu Lihong, who now supervises sales program management under Xian Janssen Vice President Zhang Xiongxin (Zhang Siong-Hsin). Ms. Gu also was kind enough to supply a business report that she made about the project during her time as an employee of the Hangjiang factory.

³¹Compensation Trade agreements were the precursors to actual joint ventures in China. Rather than granting outright ownership, Chinese partners promoted the importation of technology in agreements that were negotiated through beneficial partnerships that allowed foreign enterprises to gain comparative advantages in trading their products produced with the Chinese partner.

project. After both sides agreed on the basis of the compensation trade project, the China-Belgium Project #1, or "CBP-01," was initiated.

Janssen sent a subsequent delegation to visit Hangjiang Factory in 1980. Negotiations began, and a time frame and formal project proposal were drafted within a week. Many questions about equipment transport, currency exchange, bureaucratic approval, and price negotiations were initially unclear. Chinese officials were likewise hesitant to give their approval, as surviving the cultural revolution had taught them to act with caution. Due to the support of several key officials, however, the project gained momentum. Just over two years of planning took place after Janssen's meeting in Tianjin before CBP-01 was formally passed by more than 30 governmental organizations with over 100 signatures.³²

As this was the first major foreign investment in Shaanxi province, local officials took it upon themselves to make sure construction moved forward. One of the saving graces for the project was Mr. Zhang Bin, the Shaanxi province governor.³³ He issued a statement to managers and contractors that if any procedure could not be solved by normal channels, it should be taken directly to him.³⁴ When additional workers had to be brought in to make up for rain delays, he provided measures to feed and house them. Eventually, the factory was finished with all of the technical equipment imported and in place.

Plant operations proved to be somewhat more complicated. Chinese people had been used to years of communist rule and centralized planning. They were trained in the operation, cleaning, and maintenance of the high-tech centrifuge and reactors, and the new equipment called for daily cleaning and safety maintenance procedures. Most managers felt that the new machines were too complicated, while operators were not used to this work and often complained or failed to do it. In late 1981, several supervisors even requested that the new centrifuge be replaced with an older, simpler model.

³²Gu Lihong, "The Key Management Lessons Learned in the Case of China-Belgium Project No. 1," Xian Janssen business report, 1993, p. 6.

³³As changes were occurring quickly in regard to market reform, bureaucratic policy in the case of investment was often unclear. As a top political leader Zhang Bin made Xian Janssen his personal project, and ensured that progress was not upheld locally. For all of his efforts to see that the project was completed, today he is still known to Janssen employees as "the father of the company."

³⁴Gu Lihong, p. 7.

Problems with process oversight were compounded by Chinese labor laws. Because CBP-01 was merely a compensation trade project, it was extremely difficult for Janssen to manipulate the salary or employment status of any worker. Bonuses were given, but they had to be the same amount for everyone, which amounted to about 10 yuan per month.³⁵ If bonuses were given to top workers, other departments complained or threatened to strike. The Chinese workers complained because they received a state salary yet had longer hours and worked with high-maintenance machines. Many complained that they could work less for the same amount at a state factory. The problem of balancing work load and payment under Chinese management was difficult at the factory. Eventually, factory equipment began to wear down through misuse, and many of the workers that Janssen had trained for the project had left or were unhappy with their conditions.

The lesson that both partners learned from the CBP-01 project was twofold. First, they learned that the transfer and introduction of high technology and product know-how were quite attainable goals. The factory had been completed under difficult circumstances, and its potential for production was in place. On the other hand, management of the factory proved to be near impossible under the Chinese system. For the Chinese, they learned that management was ultimately more important than technology, and that the foreign partner needed to be involved in order to make things run efficiently. A full-blown joint venture was needed to take advantage of the technology transfer.

Belgian Janssen drew the same conclusions. While they had some reasons to be disappointed, they remained highly interested in entering the Chinese market. Not only would this improve China's access to health care products, but sales in China could also fund the main thrust of Janssen International, which is continued research and product development worldwide. For these reasons, Janssen partners were willing to overlook the shortcomings of the CBP-01 and commit to a second project for a full joint venture enterprise.

5. FOREIGN CAPITAL AND INVESTMENT

Like trade reform, policies regarding foreign capital investment were initiated in the Third Plenum of 1978 and proceeded in stages. The first stage, between 1978 and 1984,

³⁵At the time of CBP-01's opening, the Renmin Bi was being traded at roughly 5 RMB to 1 USD, translating into a maximum monthly bonus of 2 U.S. Dollars.

saw modest increases in foreign investment, with annual income averaging \$3.1 billion U.S. dollars. This was the period in which CBP-01 was undertaken, and both parties found that further reforms were needed for successful partnering to take place.

Investment was further encouraged in 1984, when 14 cities were opened to investment and the aforementioned economic zones were created with preferential treatment for outside investors. These trends were further strengthened in 1988 as power was further decentralized to the provinces and coastal localities.

China's emphasis has shifted gradually from debt to direct investment, as the latter option brings several advantages. Direct foreign investment can promote the use of technology, equipment, and management expertise. Additionally, it expands the export of commodities, replaces imports with locally-made products, and carries less risk than long-term borrowing.³⁶ These advantages were welcomed by China. Foreign investors were likewise attracted to China due to its large potential consumer market.

6. XIAN JANSSEN JOINT VENTURE CONTRACT

While both Belgian investors and Chinese officials hoped to take advantage of the opportunities provided by joint venture partnership, the bureaucratic procedure took some time to reach its completion. Regulations required that a joint proposal first needed to be submitted to the State Planning Commission. This proposal, dubbed CBP-02, was developed during a trip to China made by Dr. Janssen in October of 1982. Dr. Janssen's delegation worked closely with the State Medical Administrative Department, the Shaanxi Medical Bureau, and the Hangjiang Factory to establish a plan for a joint venture enterprise.³⁷

The State Planning Commission approved the proposal on July 7, 1983. This step was followed by feasibility studies which required designers to submit proposals about all aspects of the company, from construction, importation, and technology transfers to budgetary estimations. It wasn't until April 19, 1985 that the joint venture contract,

³⁶Deng Jianmin, p. 33.

³⁷Many of the early historical records for the joint venture contract were obtained through the business diaries of Meng Fanfu, Administration Manager for the company from 1985 to 1993. The writer also interviewed Mr. Meng, who is now the General Manager of the new Deer Garden Housing Project for factory employees in Xian. The extensive business diaries were translated by Professor Shi Songquan, visiting professor of Foreign Languages and Literatures at the University of Montana in 1995-96.

technology transfer contract, and company constitution were all signed, and an application for business license was submitted.

Finally, on October 22, 1985, the State Industry-Commerce Administrative Bureau issued a business license to Xian Janssen Pharmaceutical Company, Ltd., thereby marking the formal founding date for the company. The founding meeting of the first Board of Directors was held the same day, and plans to execute construction began in earnest.

The State Planning Commission approved the project design on March 29, 1986, and the ground-breaking ceremony for the factory complex was held on June 3rd. The construction bid was confirmed in March of 1987, and building began in earnest. Preparation for labor acquisition began in October of the same year, and the company's labor union was started with the hiring of the company's first seventy-five workers.

On March 31, 1989, quality certificates were received from the Shaanxi Health Department and the now completed factory ran its first successful production runs. Xian Janssen Pharmaceutical Company, Ltd. opened its doors for business on May 4, 1989, and Janssen products for the first time became available to Chinese consumers.

The period leading up to the opening of Xian Janssen was a difficult one, but it led to a working agreement for negotiators on both sides of the partnership. Chinese officials struggled to meet the goals and changing regulations of China's dynamic economic reform. Janssen partners patiently worked through these difficulties and were able to get technical aspects of production in place.

1989 therefore marked the end of the negotiating and construction phase of Xian Janssen's history. In 1989 Chinese policies encouraging trade and investment had been utilized by Belgian partners, and production capital was in place for the company to begin its business operations.

B - CHAPTER 2-B : XIAN JANSSEN'S CRISIS PERIOD

Abstract:

The three years between 1989 and 1991 brought instability that threatened to destroy any gains that had been made by China in its process of economic reform. Xian Janssen was subject to this external environment of political uncertainty, and also had to cope with outdated management attitudes and regulations internally. In both the national and company contexts, new ideas were needed to accomodate the fast pace of change and uncertainty.

1. THE REFORM PROCESS WORSENS

When reforms were initiated in 1978 and promoted further in 1984, China's Communist Party embraced a radical new course that it claimed would bring modernization and a higher standard of living to China. Up until the mid-1980s, the new direction appeared to be bringing excellent results, with the GNP growing by 11 percent in 1988.³⁸ By the early months of 1989, however, the extent of success seemed much more limited, and the problems of rapid economic growth had begun to emerge.³⁹ Corruption was rampant and inflation was spinning out of control, reaching a high of 18.5 percent in 1988.⁴⁰ In addition, values had begun to change, and expectations for freer political policies had been raised to a point to where many felt that they could not be met.

While the student protests that began in the Spring of 1989 were largely political in nature, they had their roots in the exposure and liberalization that economic reform had begun. Though strongly in support of reform, students were becoming resentful of the corruption that allowed less qualified bureaucrats to seize the benefits of reform. As intellectuals, the impact of inflation was a serious worry for their fixed income professions as future professors. The students also complained of the disequilibrium between the pace of political and economic reform, and demonstrated in response to the controls that blocked the political reform process.

³⁸William Overholt, The Rise of China, (New York: W.W. Norton & Co., 1993), p. 30.

³⁹Mackerras, China Since 1978, (New York: St. Martin's Press, 1993), p. 43.

⁴⁰ "China: The Emerging Economic Powerhouse of the 21st Century," in Business Week, 17 May, 1993, p. 56.

In policy terms, the crisis era showed an unprecedented degree of toleration to initial protests, but this position was reversed when the June crackdown occurred. Both the protests and the subsequent governmental crackdown marked a crisis for China, and many feared a backlash and the reintroduction of conservative economic and political policies.

While the turmoil of the crisis period was worrisome for the foreign investors that had entered China, there was some hope that Deng Xiaoping would at least maintain his prescription for reform. While many expatriate employees were evacuated from China for a time, those companies that were committed to their investment goals stayed on and experienced stabilization of policy within the span of two years. The aftermath of the massacre witnessed a more cautious approach to control, but tensions began to ease in 1990, and reform was reaffirmed by Deng Xiaoping's reappearance and the Fourteenth Party Congress in 1992.

2. XIAN JANSSEN AND 1989

While the tragedy of 1989 is regrettable and will be evaluated in a larger context with the passing of time, it is a telling episode that marks a state of change in Chinese history. Xian Janssen had also reached a turning point in terms of its own development. The joint venture had gone from an idea born in the early years of reform to becoming a concrete reality. The plant in Xian was now an existing structure ready to enter production. As a harbinger for the new direction the company needed to take, June 4th, as the events of 1989 are referred to, tested the resolve of those that had struggled to bring the company to life.

Just two weeks after Xian Janssen's first products were put into production on March 31, 1989, Hu Yaobang died. As one of the architects of the reform process, Hu had been purged from his position as General Secretary of the CCP for "bourgeois liberalization." In the eyes of the student population, Hu's banishment made him a symbol of the liberal ideals and reforms they had wished for. Hu's death sparked a wave of demonstrations that grew more and more complex, gathering momentum in a way that neither government or student leaders were able to control.

While the major events of the student protest movement took place in Beijing, Xian and other major cities also experienced different degrees of turmoil.⁴¹ For a factory that

⁴¹While the writer was teaching at Xian's Northwest Polytechnical University from 1991-92, many students were still quite emotional when explaining their involvement in University

had just recently started operations, the atmosphere of activism and protests made for obvious management challenges. Shen Rulin, the company's Deputy Director, recalls that managers had daily meetings with the labor union throughout May, urging workers not to join the protests.⁴²

On May 4th, Xian Janssen received its business sales permit from the Industry-Commerce Administration Bureau and opened for business just as student protests were becoming a major movement. While many workers were tempted to join the demonstrations, top managers went out of their way to personally convince the workers of the long-term importance of Xian Janssen.

As Shaanxi province's premier example of foreign investment, local government leaders also focused on maintaining order at the facility among company employees. Zhang Bin, the former Vice-Director of Shaanxi province, was also a former Xian Janssen board member, and he worked to keep order in concert with company managers.⁴³ Economic incentives and threats were also used as a deterrent from being involved in the protest movement.⁴⁴ According to local accounts, not one worker was absent from the job throughout May and June of 1989.⁴⁵

For expatriate managers, the period proved to be a difficult time to exert control. The risk involved with the increasing turmoil led to the decision to evacuate all eight expatriate personnel to Hong Kong, where managers tried to keep up on events with

demonstrations and protests along Chang An Avenue. While Western news coverage of the period focused mainly on Beijing, the student movement became quite extensive nationally, with Xian experiencing its share of the turmoil.

⁴²In a personal interview with the company's top Chinese managers at the 1995 Top Ten Convention in Xian, Shen Rulin candidly discussed the 1989 period as one of the most difficult challenges the company had to face.

⁴³Zhang Bin had stepped down as Chairman of the Board due to administrative term limits on March 4, but still remained active in company policy formulation.

⁴⁴Because this period saw the evacuation of Western managers to Hong Kong, and because Chinese historical records of the company avoid mentioning the political events of the time, the writer bases his description of events largely on personal accounts. Some of the most senior Xian Janssen managers were the only ones that experienced the crisis directly. Madam Zheng Hong, Shen Rulin, and Meng Fanfu made brief mention of this period as a very trying time for the company.

⁴⁵Personal interview with Shen Rulin, July 3, 1996.

daily faxes and telephone calls⁴⁶ The events of June 3rd and 4th brought a sobering mood to the company, but Western managers moved back to Xian later in the year when stability had been restored.

At the corporate level, Johnson & Johnson was under considerable pressure after the media's coverage of the Tiananmen incident. American business in general was urged by political leaders and popular opinion to distance itself from what was increasingly seen as a brutal and unpredictable regime in China. Coupled with these pressures were the reports from managers in Hong Kong, who even before their exile had long been complaining of language barriers, lack of suitable accommodations, job demands, and the absence of social life in Xian. The reports on the joint venture partnership also looked bleak, as disagreements predominated, contractual misunderstandings were common, and original assumptions of partners about cash flow and management were now outdated.⁴⁷

Given the crisis that the company faced, an internal audit was ordered and carried out in October of 1989.⁴⁸ While several indicators suggested that the audit was intended to be used as a rationalization to pull out of the investment altogether, the audit passed with surprisingly positive results.⁴⁹ While the company was still in the red, first-year sales exceeded the expectations of both partners. At the closing of 1989, gross sales had already reached 36,396,000 RMB. Total capital investment stood at

⁴⁶As no member of the Western management team in 1989 still works for the company, the information available to the writer about this period was extremely limited. The general lack of respect between western and local managers of the time is discernable, however, when consulting the record that four executive presidents were brought in and left or were fired within a five-year period. Four presidents came and went between 1985 and 1991, and some Chinese employees spoke openly about the lack of understanding and communication that took place during this period.

⁴⁷Many of the general problems and challenges of Xian Janssen during this period are based on "off-the-record" conversations with current company leaders making their own assessment about problems that were inherited by new management teams in 1991. A business report of February, 1991 also gives an overall summary of issues for this period.

⁴⁸References taken from the business diary of Meng Fanfu, translated to English by Professor Shi Songquan.

⁴⁹While the intentions of Johnson & Johnson during this period are not available for public consumption, both the content of business reports and more than one private conversation suggest that Johnson & Johnson ordered the October audit intending to cut its losses and pull out of China. The positive results of the findings, combined with the reassurance of Chinese officials from both Beijing and Shaanxi, and the leadership of Dr. Paul Janssen in Belgium all contributed to the eventual decision to retain Johnson & Johnson's investment in the joint venture.

slightly more than 135,000,000 RMB, and the company seemed well on its way to being in the black.⁵⁰

The Johnson & Johnson audit team was invited to Beijing after its completion, and top officials from both Beijing and Shaanxi made a point to reassure them that the new company would be given every attention in helping to facilitate its entry into China's large pharmaceutical market.

The audit team returned to the U.S. with the good news, and Belgian Janssen stepped up its attention to the Chinese venture. On November 20th, Xian Janssen's 9th board meeting was held in Belgium, and Dr. Paul Janssen was nominated as the Honorary President. While having been less directly involved with the company's business in earlier years, this marked a new commitment to Xian Janssen in this crisis period. While China's economic direction remained uncertain, political stability slowly returned, and business at the joint venture continued more or less undisturbed.

Less than a year after the events at Tiananmen, Xian Janssen held its Grand Opening ceremony, attended by Dr. Janssen and more than 350 local guests from Shaanxi.⁵¹ The celebration marked Xian Janssen's survival, but many problems remained to be addressed before the Chinese economy or Xian Janssen could continue to move forward.

3. CHALLENGES FACING XIAN JANSSEN AT END OF CRISIS PERIOD

Having successfully weathered the political environment in 1989, many business and organizational challenges awaited Xian Janssen internally. Production and business structures were now in place, but the company had to consider a whole new scope of concerns in trying to formulate a business strategy.

a INVESTMENT AND CASH MANAGEMENT

The first problems to be dealt with were investment and cash management issues. As China's reforms had not yet considered all concerns from the investor's perspective,

⁵⁰Figures about Xian Janssen's economic performance were taken from annual reports published by China's State Pharmaceutical Administration, and at various times by published information by the Top Ten Joint Venture Selection Committee and China Economic Daily. RMB figures have fluctuated in exchange value between 5.1 and 8.3 to one U.S. Dollar since 1991.

⁵¹Taken from the translations of Meng Fanfu's business diary.

several problems were immediately apparent. Most obvious was the currency loss that came with income in Renminbi (RMB)⁵². While first year sales had gone well, converting to hard currency called for changing on swap markets that were unequally matched with official exchange rates, translating to significant losses for foreign partners.⁵³ Cost of production also seemed a problem, as gross profits seemed low, ranging from 43.9% in 1990 to 48% in 1991.⁵⁴ Collection of receivables was also a problem, as eighty days was the norm. Financing challenges were compounded with Xian Janssen's over-leveraged status. In order to finance construction charges, the company needed to lower its debt and solve the foreign exchange problem (possibly through export income). Finally, these problems were compounded with a forecasted devaluation in the RMB that might not be made up for, as the company's ability to raise its market prices seemed doubtful at the time.⁵⁵

b MANUFACTURING AND LOCATION

Manufacturing and distribution concerns also presented problems. While choosing to settle in Xian had won benefits and special treatments for the company because of its relative isolation from major markets, it created difficult logistics for supplying coastal markets more than 1500 kilometers away. Being located in an interior province, Shaanxi was not an easy place to supply the more populated and prosperous consumer markets of the coastal provinces.

At the production site, new production lines needed to be added to the floor, as the factory was operating at only 50% of capacity. With new production costs and asset maintenance, substantial expenses were expected to be incurred through 1992.

⁵² Note that Chinese currency, or RMB, is sometimes also referred to in its more colloquial term of *yuan*.

⁵³In 1991 at the end of Xian Janssen's crisis period, the official rate for dollars was 5.2:1, whereas the best possible swap rate stood at 5.7:1. Information supplied by management report of February, 1991.

⁵⁴Management report, 1991.

⁵⁵Portions of the general challenges facing the company were related to the writer during discussions with various managers in 1991 while working as an English teacher at the factory complex.

c TRADE

Trading and exporting were additional question marks for the company. Chinese regulations forbade the export of products, as income gained in local ventures was to remain in China. New options were needed, especially considering the foreign exchange losses. Existing raw materials often had to be imported, as local suppliers were high priced and poor in quality and reliability. By contracting for imported products, however, the foreign exchange problem was compounded, and duties made costs unreasonable. Long term options were needed to answer both problems.

d JV PARTNERSHIP

The joint venture partnership itself was in trouble, even after surviving China's political turmoil. According to some managers in the company, this period was referred to by them as the "Warring States" period in Xian Janssen history due to constant infighting.⁵⁶ Expatriate presidents had come and gone four times since 1985, and Chinese managers often felt slighted by condescending bosses.⁵⁷ The expatriates themselves felt socially and culturally isolated in Xian, often leaving for weeks at a time or even taking up residences in Beijing, Shanghai, or Hong Kong. Infighting was also common within the ranks of the Chinese management, as each department fought to maintain its role of prominence. The entire staff had been taken on in the technology transfer stage, and many of their assumptions about their job goals were outdated. A strong technical culture predominated, and a serious lack in business management skills was evident within the company, as well as China as a whole. Cooperation and management unity had to be strengthened and sustained if the company were to survive.

⁵⁶In describing the culture of the company when he arrived in 1991, Vice President for Sales and Marketing Zhang Xiongxin gave the "Warring States" title to the period, referring to the same period in Chinese history when China had no emperor and was ruled by feudal kingdoms at war with one another. Mr. Zhang insisted that his colleague's first mission as managers was to gather the different factions behind a "New Dynasty" in order to bring growth and prosperity to the company.

⁵⁷In listening to various interviews with senior staff, early Janssen expatriates were known to openly express disdain for the Chinese employees. Chinese drivers were made to come and wait all day below four-star hotels on the weekends on the off-chance that their managers might wander out and want to go for a drive. One president, who's name will remain anonymous, even had his own bathroom constructed and kept it locked at all times, so as not to share it with Chinese workers.

e SALES AND MARKETING

Sales and Marketing were an obvious challenge, as the market now needed to be entered. In many cases, there were very few precedents for Janssen-type medications, and a publicity drive was needed to market the new products. Eighty percent of the targeted market was on the coast a great distance from Xian. A sales force of doctors and pharmacists had been assembled, but Western marketing approaches were largely untested in China, especially in medical fields. Despite these uncertainties, market tests had shown that the Chinese market was highly responsive to advertising promotions, and Janssen products were well established as high quality products internationally.

f DISTRIBUTION

Product distribution was difficult to manage, as China's centrally planned economy still overrode market forces in 1991. Initially, Xian Janssen was forced to sell its products directly to large government distributors that based their purchasing on annual forecasts and allotments, rather than actual need. This was difficult for a foreign corporation, as sales forecasts and growth were dependent on distributors' expectations. This structure further compounded problems because of Chinese planners' lack of data management or communications skills. "M.I.S.", or Management of Information Systems, for office computer networking was unavailable in China at the time, and working both with suppliers and regional sales offices was therefore complicated by distance. In this case, both Xian Janssen and the Chinese government needed to explore options for a more equitable and responsive distribution system to meet local medical needs.

g HUMAN RESOURCE DEVELOPMENT

According to business reports on record, delegation of responsibility among Chinese managers was extremely limited through 1991. Daily business depended largely on oversight from expatriate managers.⁵⁸ Most people felt that there was a lack of Chinese candidates with management potential, as universities had just begun curricula of business management, while familiar cultural and historical factors discouraged aggressive, risk-taking behavior. Training was, therefore, one of the company's top

⁵⁸During the writer's stay as a part-time employee in 1991, Xian Janssen had 9 expatriate managers, which has been adjusted over time. At the time of writing, eight full and part time expatriates were employed by the company in China

priorities. A system of recognition and incentives was needed to develop personnel, and an effective employee selection process would be vital to its future.

h COMMUNICATION

Finally, communication problems abounded. Most expatriates were Westerners with no language ability, and every word had to be translated. Historical legacies and the events of 1989 also fostered a tendency for closed communication among the Chinese, and risks were avoided at all costs. Technologically, lack of computer communication or “Management of Information Systems” compatibility also made for ineffective flows of communication. In terms of language, culture, and technical support, Xian Janssen needed immediate intervention to increase the speed and efficiency of its decision making process.

These were the various challenges in administrative, business, cultural, and technical terms that confronted Xian Janssen in 1991. It had survived the production development phase and the political storms of 1989, but many solutions were needed if the company intended to make its mark in China’s unpredictable market environment.

C - CHAPTER 2-C : OVERCOMING CHALLENGES

Abstract:

After the turmoil of 1989 subsided, China experienced a resurgence of its national economy that was paralleled by the increasing success of Xian Janssen. Having already established operations, Xian Janssen was well-positioned to enter China's booming market in the early 1990's. The company's management development in this period is looked at both chronologically and topically, focusing on needed departmental changes.

The problems facing many other joint ventures in China in the early 90s were largely the same ones we had to face. The reason we have achieved such success is simply this: we had a management style that incorporated Chinese perspectives and was people-oriented.⁵⁹

1. CHINA'S ECONOMIC TAKEOFF

Though both trade and use of foreign capital slowed noticeably in the aftermath of the Tiananmen incident, both quickly regained their former momentum. Reports by the IMF in 1993 claimed that on a purchasing power basis, China's GNP accounted for over 6% of the world's economic output, making it the third largest economy behind the United States and Japan.⁶⁰ In 1992, gross trade volume rose to \$166 billion⁶¹, more than eight times its total in 1978.⁶²

The continuation of reform policies have led to greatly expanded utilization of foreign capital in China. During its first twelve years of reform, China attracted more than \$20 billion in foreign investment, including over 30,000 individual ventures.⁶³ At the time of

⁵⁹In a personal interview Executive Vice President Zhang Xiongxin (Zhang Xiongxin) recalled the development of Janssen's management strategy from the time he entered the company as Sales Manager in 1991. As a Singaporean, Mr. Zhang insists that his knowledge of Chinese culture was an essential part of being able to foster the unity and direction needed to build a sales and marketing department.

⁶⁰ "World Economic Outlook." (International Monetary Fund, 1993), p. 117.

⁶¹ Dollar amounts calculated in U.S. currency.

⁶² Deng Jianmin, p. 32.

⁶³ William H. Overholt. **The Rise of China** (New York: W.W. Norton, 1993), p. 31.

this writing, the number of registered joint ventures in China stands at more than 270,000, valued at \$142 billion in total overseas investment.⁶⁴

While problems have occurred, the experiment with foreign investment seems so far to have created opportunities for mutual benefit. Indeed, foreign enterprises now produce a significant share of GNP and in 1993 were growing at a rate of 50 percent annually. Along with Chinese private ownership, foreign and independent enterprises are expected to become the dominant force in the economy within a few short years.⁶⁵ Foreign investors make a large contribution to China's export volume. In terms of its involvement with international capital and business entities, China has opened its borders to the world, becoming a valuable lens to understand the increasingly supranational nature of modern economic growth.

2. XIAN JANSSEN'S TURNAROUND : 1991-1994

As China's economy began its upswing in growth through 1991, management relations within Xian Janssen were still problematic, but production and initial sales of products were having marginal success. It was not until the arrival of Xian Janssen's fifth president that the company's internal and external relationships began to improve, giving way to the drastic turnaround in growing sales, revenues, and company image. Jerry R. Norskog was appointed to replace outgoing President Phil Blackshaw in the summer of 1991, and he assumed the new position with a new attitude toward his partners and customers and a unique management philosophy.

In describing his first company address in the summer of 1991, Norskog recalls his intentions to reach out to employees. With over four hundred people assembled in the factory's main dining hall, the new president gave a personalized address to the company without using the microphone, and ended his presentation by singing a song in the Chinese tradition. Before leaving, he shook hands with every individual in an attempt to cut through the distance that had separated previous managers from the workforce.⁶⁶

⁶⁴Qu Yingpu, "Foreign Investment and Successful Ventures in China,". While this figure is often quoted in China's official investment figures, it is based on several unclear definitions and may include a large number of ventures that have little or no foreign investment, but act as marketing or agency representatives. The accuracy of Chinese investment figures has been open to question in this regard.

⁶⁵Overholt, p. 50.

⁶⁶Personal interview with Norskog, July 24, 1995, Beijing.

This change in personality also fit with a new direction emerging in the company. Deng Kangming, Xian Janssen's former Regional Sales Manager for Beijing, recalls the change as a most fitting one. He describes Phil Blackshaw, the outgoing president, as a serious man who focused all of his energy on production goals. Jerry Norskog changed the direction of the company with his arrival in 1991, bringing an open, American style of leadership and shifting the company's priorities toward a sales and growth orientation.⁶⁷

3. COMPANY UNITY

a FROM "WARRING STATES" TO A "NEW DYNASTY"

The first challenge new managers faced was to overcome the tensions and factionalism that had plagued the company since the signing of the joint venture contract in 1985. While the investment had been salvaged, the decision to move forward with the company had not solved the poor state of relationships and lack of cooperation between departments. Upon Norskog's arrival in Xian, it quickly became apparent that cooperation was dissolving within the company, as power struggles were taking place between nine competing groups. Just as the warring feudal states of China's historic past competed for power, so to had rival factions begun to compete for influence within the company. Management of the enterprise was perceived as a "zero-sum" exercise, with each department defending its own territory and bureaucratic autonomy.

As a newcomer, Mr. Norskog recalls ushering in "a revolutionary tidal wave" of a new, managerial culture.⁶⁸ His initial steps were to hire and build an entirely new management team that incorporated three overseas Chinese in order to gain trust and provide insight to the perspective of local workers and customers.⁶⁹

⁶⁷Personal interview with Deng, Kangming, 24 July, 1995.

⁶⁸Personal interview with Norskog.

⁶⁹As his first order of business, Jerry Norskog recalled in a personal interview that recruiting a proper management team quickly became an essential asset. Norskog realized the importance of cross cultural management by hiring Singaporean, Hong Kong, and Chinese-American managers. Individuals were selected not only on the basis of work experience, but also on their ability to adapt to China's spartan lifestyles and intricate social relationships.

The initial reaction by Chinese workers to the new management team was skeptical. The workers that had been involved in negotiations from the beginning had grown used to expatriate managers coming and going, never staying for more than one year. Their attitude was far from deferential, as they expected the new managers would likely leave within the same short time period.⁷⁰

Within days of the new management's arrival, the Chinese labor union organized a strike to protest the ongoing differences with the Belgian Janssen management. Jerry Norskog and Vice President Zhang used the crisis as the occasion to bring competing groups together and begin to execute unified company strategy. Each of the new managers individually associated themselves with different groups, trying to foster a loyalty among them. Slowly, the managers were able to gain loyalties within groups that could be brought together in an alliance. The strike incident was solved within a matter of days, and company cohesion began to slowly develop.

4. COMPANY CULTURE

a "THERE IS NO SUCH THING AS A FREE LUNCH"

The next difficulty that had to be overcome was the historical and cultural legacies that made management difficult for private companies in China. Attitudes from the communist experience still predominated in China, and the company's more experienced workers held views that were incompatible with running a private enterprise.

As state employees, Chinese workers were used to socialist benefits in housing and job security. This meant that the "iron rice bowl" mentality still predominated, and workers did not feel compelled to perform.⁷¹ Employment was taken for granted by state employees. Although they were working for a foreign company, they wanted the best of both worlds, to be able to enjoy state sector job security plus higher wage benefits. "The problem with attitudes," recalls Vice-President Zhang Xiongxin, "is that

⁷⁰Personal interview with Zhang Xiongxin, July, 1995, Beijing.

⁷¹A common expression throughout China during the reform period, the "iron rice bowl" refers to the difficulty of weaning state employees from the security in food and housing they had grown accustomed to. Initially, the term had been a central tenet of Maoist philosophy, and was in fact used in the Chinese constitution as a socialist right to be provided by the state. Vice President Zhang states that workers and officials saw Janssen as a "cash cow" that they could benefit from, but no one expected to have to earn anything through hard work.

people demanded all the benefits of socialism and the high pay they associated with capitalism. It was simply impossible to manage in this environment.”⁷²

Internal attitudes also discouraged business, since senior Chinese workers expected that the company was somehow in debt to them. These workers referred to themselves as the “Pioneers of the Company,” and some were already asking for early retirement or extended vacations for seeing the company through its production development period.⁷³ Not having had any experience with private enterprise, they also felt that their technical expertise was to be valued more highly than any business or sales experience of the new management. As Zhang Bin and other top provincial authorities had personally seen the company through its initial years, workers assumed that their positions would remain intact, and that new expertise on sales or marketing was a secondary concern.

In order to deal with conflicting attitudes and lack of business training, new managers needed a motto to provide an urgency for the company’s organizational development. One simple tool that was used early on was the emphasis on slogans and mottoes to educate employees about how to rethink their values and assumption about work. The first sign that went up around the factory complex was the slogan “There is no such thing as a free lunch.”⁷⁴ This message brought a sense of urgency to the retraining of attitudes and outdated concepts in the company.⁷⁵ In company meetings throughout 1991 and 1992, Norskog introduced the saying to employees, reminding them that customers were the people to whom the company owed its existence. The customer paid everything from the water bill to meal costs to employee salaries, and customer satisfaction therefore needed to be the company’s highest priority.

⁷²Personal interview with Zhang, 23 July, 1995.

⁷³personal interview with Norskog.

⁷⁴While teaching at Xian Janssen in 1991 and 1992, posters and banners hung every where saying “(mei you mianfei de wucan).” Workers often talked about the slogan, saying that the iron rice bowl would be a hard habit to break, but that this new idea was a reminder about remembering to work hard.

⁷⁵The slogan about “no free lunch” was coined by Paul A. Samson, founder of the graduate school at the Massachusetts Institute of Technology, and the first American Nobel Prize winner in economics. The slogan was utilized by Jerry Norskog in order to make employees start focusing on the customers on whom the company depended.

Assuming that other enterprises might also serve their customers, the slogan also made workers think about implications of the competition that was now entering China's market. Many pharmaceutical competitors were being established at the time, and people began to realize the need for market adaptability, sales, customer service, and a strong management agenda in order to survive.⁷⁶

The slogan was also a direct attack on the iron rice bowl, stating explicitly that neither state nor company employers owed workers anything until it had been fairly earned. This also demanded leadership by example, which was perhaps the most effective way to make an impression on workers. The new management team was to work with an open, energetic style, remaining non-judgmental of others but intent on showing integrity through hard work.⁷⁷

While a seemingly simple idea to most Americans, the implications behind the "no free lunch" slogan inspired important new realizations in the minds of Chinese workers. Rather than taking employment for granted, workers began to appreciate the need for hard work and a measurement of company and individual success through the satisfaction of the customer.⁷⁸

b "LET'S MOVE IT"

The third challenge was to provide a strategic direction and begin implementing the motivation, training, and organization needed to carry out the company's business plan. Realizing that individualized free market incentives had not been implemented well in the past, managers made use of a Chinese folk tale saying in order to foster

⁷⁶Gu Lihong, "Winning the Heart of the Customer--Managing Concepts and Secrets of Success of Xian Janssen," (translated by Shi Songquan) February, 1995, p. 1

⁷⁷Both Jerry Norskog and Vice President Zhang spoke about the period after their arrival as a time when hard work needed to be introduced by example, rather than judgment. Both managers worked double-time during the period, forcing workers to recognize the integrity behind the "no free lunch" slogan. While past managers had complained about performance and created rifts, the quiet, hard work of new managers inspired others to follow their example. Subsequent interviews by the writer in 1995 suggest that this trend is still effective, as workers expressed a feeling that they must work harder, since top managers are often the last ones to leave the workplace in the evening.

⁷⁸ Workers the author discussed with at the time spoke proudly of the new ideas being promoted by their company. As many inquisitive and hardworking individuals had been promoted by 1992, people were beginning to enjoy the fact that their work was recognized and rewarded for its quality. This use of simple slogans was a way for Chinese workers to relate new ideas about work to old Chinese sayings, which are still used today to emphasize and give meaning to new situations.

group cooperation and motivation. In its English translation, "Let's Move It!" was taken from the story "Yu Gong Moves the Mountain," and it became the company's new motto.⁷⁹ Drawing on Chinese cultural traditions, this motto reassured workers that even impossible tasks like moving a mountain can be achieved through conviction, hard work, and cooperation.

c "DEDICATED TO SCIENCE, DEVOTED TO HEALTH"

As a compliment, managers also began to stress the need for envisioning the higher purpose of working at Xian Janssen. They needed a credo that could embody an ideal for workers to strive toward. Building on the examples of both Johnson & Johnson and Belgian Janssen, the new slogan upheld the ideals of community health through scientific research and progress.⁸⁰ "Dedicated to Science and Devoted to Health" became the banner that workers could work toward in the cause of bettering China's health care system. The aim of Xian Janssen was not simply to turn a profit on its products, but to commit to the improvement of the nation's health care system.

The new management began to employ the use of the credos as business operations developed, and one senior Chinese manager maintains that the benefits of winning sincere respect from customers and the general public has come from the influence of community-minded credos of Xian Janssen's corporate partners.⁸¹

⁷⁹The original story relates the life of an old man that grew tired of climbing over a large mountain that lay between his home and the fields where he and other villagers went to work. After exclaiming that he intended to move the mountain ("Let's Move It"), people pronounced the old man crazy and laughed at his foolishness. After a short time, however, it was noticed that he had resolutely determined to do the work himself, removing piles of rock from the mountain one by one. Inspired by his conviction, other villagers joined him, and together with the good will of the gods around them, the villagers soon removed the mountain. Having undertaken a seemingly impossible task, Yu Gong and the villagers had worked together to make their lives better.

⁸⁰Note the copy of the official Johnson & Johnson Company Credo in the appendix. In a discussion between Jerry Norskog and Cargill International's China Director, John Holden, the writer observed both managers agree on the importance of credos in the Chinese workplace. Strong communal values and a commitment to consumer and employee needs are ideas that blend well with China's Confucian culture and its Socialist ideology. Both managers suggested that corporate and local credos were invaluable in providing group motivation in the Chinese context.

⁸¹Gu Li Hong.

A company song was also created, and workers encouraged to sing at all company gatherings.⁸² Gu Li Hong, now a senior Chinese manager in the Sales Department, sees the credos and company song as “as a friendly tie linking the workforce and arousing their enthusiasm for winning new achievements.”⁸³

While working on molding new attitudes and management culture in the workplace, managers also had to tackle the logistical problems that they inherited from departing managers.⁸⁴ In solving these problems, many of the company’s most innovative programs were developed. In many cases, these programs have become industry standards, again showing the company’s ability to lead and affect positive change in a Chinese environment that turned out to be more responsive than clichés about the legacies of socialism would suggest. What follows is a historical development of how each management crisis was solved and managed over time.

5. MANDATE FOR CHANGE

In 1992, the Chinese government deregulated the pharmaceutical distribution system, forcing the company to realign its entire sales and marketing strategy. Previously the state structure had been controlled by eight national distributors, and sales were allocated to different companies based on the forecasts of central planners. For a private enterprise, this meant an inability to meet or affect market demand. Consequently, the deregulation of the system was in some ways a boon for the company, removing the ceiling on annual sales.

The negative aspect of the policy was that the company was abruptly forced to deal with more than 800 regional distributors throughout China’s many provinces. This called for further investments to recruit a national sales force and establish regional offices immediately, as market share was now open to competition.

⁸²The lyrics to the Xian Janssen theme song also refer to images of Chinese culture, and are as follows: “Our minds are broad as the Qin Mountains, ranging over hundreds of miles--Our road is long as an ancient river, extending far and wide--One aim, one wish is binding us all together from Belgium to Xian. Oh! Xian Janssen, you are writing the pages of a new history forever!”

⁸³Gu Lihong, p. 6.

⁸⁴Vice President Zhang referred to early operations as a time that the company needed to look forward, but first had to cut off the “tails” (wei ba) of unfinished business left over from departing managers. Before new plans could be made, both personnel and administrative problems had piled up during the company’s crisis period, and had to be dealt with.

The company responded by turning the crisis into an opportunity. In November of 1993 Jerry Norskog and Vice-President Zhang took over the sales department. Previously the sales department had been run by a Hong Kong Chinese that drove sales through his personal relationships with major distributors. Norskog maintains that at one time the tactic worked well within the Chinese system. With deregulation, however, more control was now available to the company. "Distributors don't create demand," Norskog explains. "We decided to create it ourselves by providing medical education for doctors at each individual hospital."⁸⁵

The new sales plan would entail a massive investment in organizational development. In 1993 and 1994 the sales force was increased markedly, with the company's main managerial thrust to train its new workers to meet the challenge.⁸⁶ New "Spirit" training camps were created in which hundreds of new employees took part in competitive exercises that encouraged rapid and profound learning.

In the office, strict examination procedures were established to hire workers from all over China. Each staff member was subject to a 100-hour annual training program. As for managers, 100 of the company's top staff were sent abroad for specialized training, with the company spending over \$2 million on such technical training through 1994.⁸⁷ Each of these programs has become a mainstay in Xian Janssen's company culture, and are elaborated on in following chapters.

These initiatives bear a close, yet amusing echo to the socialist education programs of Maoist thought. Coming from a Western company, the programs seem to emphasize socialist values. However anti-capitalist or anti-individualist they might seem, the point is that they found a way to effectively produce results without completely dismissing useful aspects of socialist education and propaganda.

1993 brought a second crisis when Xian Janssen was audited by Johnson & Johnson. Initially, auditors passed the company, submitting a three-page report. Unsatisfied, Norskog sent the audit team back, demanding at least 50 pages and a thorough report. The report was then filed as a failure, and the company came under

⁸⁵ Personal interview with Norskog, 23 July, 1995.

⁸⁶Expense increases during this period are covered more fully in chapter 3, and analysis of training programs is outlined in Chapters 4 and 5.

⁸⁷ "Sino-Belgian JV Tapping Big Market," col. 2.

grave scrutiny. In demanding the report, Norskog was after a wake-up call from corporate headquarters that would give him the support to implement drastic change. Unsatisfied with the status quo, he was determined to risk criticism in order to identify his observed need for change. Norskog refers to this period as a low-point in his career, but the turning point for the company.

In a word, the goal behind failing the audit was to raise people's attention to the higher cause of the two party exchange. With a common goal of improvement, different factions could be drawn to working for mutually beneficial programs as opposed to relying on individual influence or corrupted interests.

Having purposely failed the audit, management sought to create a mandate for change to improve several problems within the company. In order to overcome existing communications problems, a mainframe IBM AS-400 was ordered, and a user network and MIS department were implemented. Installed in October of 1994, it marked the beginning of a more controlled management culture within the company. In 1995 the company linked its regional offices to the Beijing office and was added to Johnson & Johnson's international network through the internet.

Xian Janssen has both adapted to and promoted innovations within its industry in accordance with changes in its political and market environment. I like to refer to this tendency as a "lead-lag relationship" that Xian Janssen has developed in the Chinese market. This particular relationship has taken an authoritative turn in the mid-90s. With continued reform and deregulation making it easier for companies to make their own deals, Xian Janssen actively brought technical and managerial innovation to its operations. Its experience suggests that it is possible to succeed in choosing suppliers, training buyers, fighting for legal precedents in China if approached imaginatively. In 1993, Norskog explained that "With the government decentralizing, its getting easier to cut your own deal."⁸⁸

a DONATIONS AND INFLUENCE—PUBLIC RELATIONS "CHINESE STYLE"

Xian Janssen has created several annual cash contribution funds to different community organizations, knowing that proactive generosity can be effective in bringing about change.⁸⁹ With over 12 years of experience in Asia, Norskog feels that he has

⁸⁸ "China: The Emerging Economic Powerhouse of the 21st Century," in *Business Week*, 17 May, 1993, p. 58.

⁸⁹ Social training programs and contributions are discussed in detail in chapter 5.

learned the importance of seeking out relationships. "In Asia you should never forget the hand that feeds you," he says, calling it "a culture without law, even if the country has law."⁹⁰ While China has passed a series of progressive business laws, the lack of legal traditions and structure has made enforcement difficult. This structural vacuum may help explain China's major problem with corruption, and certainly places a premium on fostering partnerships with government agencies as a measure of business insurance. At the same time, however, it may offer opportunities for innovation and successes not usually associated with societies where legal structures are more fully developed.

In June, 1994, Norskog took a position of leadership in addressing China's first Discussion on Clinical Medical Ethics. Addressing over 200 medical officials and experts, he made a call for the fight against corruption in medical ethics.⁹¹ Specifically, intellectual property rights were placed on the agenda to address the importance of legal protection not covered by Chinese business law. Many officials were forced to reckon with the complaint, as Xian Janssen was a major sponsor of training, research programs, medical funds, and social organizations in the community.⁹² This use of high profile public donations has afforded the company significant public relations ammunition to put pressure on relevant government regulatory agencies.

The company has made other high-profile community donations that have become an effective public relations tactic. On one occasion, for example, the company's representatives visited a police officer who had been severely burned, bringing gifts of pharmaceuticals and earning much publicity in the process. Other programs have made regular donations to dermatology and medical research, archaeological sites, Panda bear recovery programs, disabled children, and social security funds, among others.⁹³

⁹⁰Personal interview with Norskog, 23 July, 1995.

⁹¹ "Clinical Medical Ethics," in Xian Janssen News, P.R. Department, Nov. 4-12, 1994, p. 28.

⁹² "Gift to Hero," Xian Janssen News, P.R. Dept., 5 March, 1994, p. 18.

⁹³Donations are listed chronologically in Table 7.

b CASH MANAGEMENT, TRADE, & FOREIGN EXCHANGE CONVERSION

Inheriting a program that had no effective foreign exchange balancing system proved to be a challenge for new managers and the Board of Directors. Developing a long-term plan to address these problems became the highest priority in Board meetings through 1992 and 1993.

Collection of bills from wholesalers was one problem, as collection times were too long and enforcement was difficult. "They put money into office buildings and shopping centers, but they wouldn't pay me," recalls Norskog.⁹⁴ His solution was to offer buyers options that the Chinese view as revolutionary, such as offering discounts for prompt payments and making first-time buyers submit to credit checks. Contracts and credit applications created by the company have since become standard in the industry, with companies like Squibb employing the same system.⁹⁵

Norskog even took his methods a step further in 1993, deciding to provide his best distributors with a personal IBM computer, software, and training to keep account records updated. Happy with the results of the program, he states, "I feel like I've just turned a light on inside a dark closet."⁹⁶

Similar tactics have been used with tax collectors, who had no training or equipment for oversight in the early nineties. In order to improve communications with tax collectors and regulatory agencies, Xian Janssen has undertaken to extend its training of "GMP", (international reference for Good Management Practices in business) to the largest medical organizations in the country.⁹⁷ Initiated in 1993, the training has been termed the "Pagoda Plan," and has been sponsored by Xian Janssen one or two times annually since then. In 1994 alone, the company spent 7.6 million RMB on buyer training activities.⁹⁸ Officials from the Ministry of Health, State Pharmaceutical

⁹⁴Louis Kraar, "Now Comes the Hard Part for China," in Fortune: The Fortune Global 500, 26 July 1993, p. 90.

⁹⁵Personal interview with Norskog, 23 July, 1995.

⁹⁶ "Now Comes the Hard Part for China," p. 90.

⁹⁷Due to the bureaucratic nature of the pharmaceutical industry, regulatory agencies such as the Ministry of Health and the State Pharmaceutical Association often overlap in roles of customer and regulator. For this reason they are specifically targeted, along with private customers, for GMP and customer service training techniques.

⁹⁸ "A Retrospect of Xian Janssen's Contribution to Society in 1994," P.R. Dept. Press Release, 1995. Translated by UM Professor Shi Songquan.

Administration, and Provincial medical leaders have all benefited from the training. This management tool has done much to improve communications, while at the same time earning the company strong points with its main distribution networks.

A foreign exchange program has also been developed, with roughly one-third of the earnings coming from export trade revenue. Once permits were acquired, the Hangjiang factory began exporting raw chemical materials to Janssen Belgium's more than thirty branch companies worldwide. By 1995, exports from Xian Janssen's Chinese production partners reached seven million USD.⁹⁹ Export of Janssen's own products have also increased, with sales of Vermox, an intestinal medicine, reaching \$500,000 in 1994.¹⁰⁰

To compensate for losses in the foreign exchange swapping, a foreign exchange conversion department was set up in Shanghai. The department's main function is to act as a separate trading company that buys raw chemicals locally and exports for profit.¹⁰¹ Exports have thus become an essential component of the company's growth. In 1994, Shaanxi Province awarded the company its best foreign currency creator with \$15.78 million in total exports, accounting for 26 percent of the total earned by the province's foreign invested enterprises.¹⁰² What is noteworthy here is that not only has the company found creative ways to convert its foreign exchange, but it also aides local state factories in bringing their products to the international market.¹⁰³

Many of the programs that have made Xian Janssen the showpiece it is today were created since 1991. Since that time, the company has earned numerous provincial awards for tax contributions, environmental protection, export income, and industrial venture with best benefits. Nationally, the company has twice been awarded the number one joint venture distinction, suggesting that management techniques have been effective in gaining local support. While each of these programs warrants further

⁹⁹Qu Yingpu, "Sino-Belgian JV Tapping Big Market," in *China Business Weekly*, 23-29 July, 1995, p. A-1, col. 4.

¹⁰⁰Personal interview with Shen Rulin, 3 July, 1995.

¹⁰¹Personal interview with Nick Zhang, July 28, 1995.

¹⁰² "Sino-Belgian JV Tapping Big Market," col. 4.

¹⁰³ "A retrospect of Xian Janssen's Contributions to Society in 1994," P.R. Dept. Press Release, 1995, p. 7.

elaboration, the basic history of Xian Janssen is important as a point of reference for how these innovations were conceived. By basing its management on the principle of influence based on mutual interests, Xian Janssen created a new management practice linked to worker motivations that makes sense within Chinese behavioral structures. By finding this management compromise, Xian Janssen fought its way through its crisis period. The company has responded to crises both in China and within its own structure to become a model foreign venture. With the influence that success has brought, Xian Janssen has become an industry leader and a partner with government, now able to exert its own influence on Chinese history.¹⁰⁴

¹⁰⁴As the latest solidification of Xian Janssen's management policies, its Strategic Partnership of 1995 is elaborated on in the paper's conclusion.

V - CHAPTER 3 : XIAN JANSSEN'S ECONOMIC HISTORY¹⁰⁵

Abstract:

Xian Janssen's economic performance is examined on an annual basis, focusing mainly on the post-crisis period when sales became a primary management concern. Investment, sales and profit figures are analyzed in terms of the company's growth rate, and basic growth patterns are attributed to management decisions.

From a Chinese perspective, the most beneficial components of foreign invested enterprises are the technology transfer, investment in the economy, tax returns on profit, and the benefit from world-class products produced and consumed in China. Xian Janssen has been a favorite of investment officials because of its high score on all these points.

In order to even be considered by the Top Ten Selection Committee, companies must invest a total of no less than \$10 million U.S. Dollars.¹⁰⁶ Investment, then, is a first consideration in ranking the company as a successful venture.

A - INVESTMENT¹⁰⁷

When launched on May 4, 1991, Xian Janssen was the largest foreign invested pharmaceutical venture in China. When production was being completed in 1988, Xian Janssen had a cumulative investment of \$101 million RMB, 52 percent of which was made by Belgium.¹⁰⁸ While this initial investment marked the end of a majority of the company's technology transfer, new production lines were still being imported to

¹⁰⁵For table reference of economic performance in different areas, please refer to tables 1-6. Regarding the figures used for Chapter 3 and its corresponding tables, please note that while Xian Janssen has released some economic figures in press releases in the past, the company's policy is to not release such information generally. For this reason, the figures used in this chapter have been taken from annual reports published by the State Pharmaceutical Administration, rather than company records. Due to different accounting procedures and distinctions between gross and net trade, the information stated here may be at odds with figures published through the company or other sources quoted in this study.

¹⁰⁶ "China: Top Ten Joint Ventures," p. 3.

¹⁰⁷Figures are given in the Chinese currency of RMB. Approximate dollar amounts at the time of writing were being traded at 8.2 RMB to 1 USD.

¹⁰⁸Figures are taken from the State Pharmaceutical Administration, and are rounded to the nearest million RMB.

increase the factory's output, and technology for packaging systems and computer management programs continued to be brought in after 1991.

As new equipment was imported in preparation for production in 1988, the next two years saw the largest increase in investment spending. By the end of 1990, investment had increased by more than 75 million to reach 177 million RMB, nearly doubling the cumulative investment of the first three years of the joint venture. As annual sales increased to over 400 million RMB between 1988 and 1991, when investment began to taper off slightly. 1991 showed the company's lowest total increase in investment, at just less than 16 million RMB.

After 1991 the company began to incur the costs of adapting to steady economic growth. In order to manage annual sales that were approaching 622 million RMB in 1992, Xian Janssen began to increase its annual non production investments in sales, marketing, computer systems, and otherwise. Investment was increased annually until 1993 and '94, when it settled at around 25 million RMB annually. This brought total investment to 264 million in 1994, more than 2.5 times the 1988 total.

This increase in spending followed a policy change in China's pharmaceutical distribution system, which was decentralized in 1992.¹⁰⁹ Whereas sales used to be transacted with the country's first tier of regulated hospital distributors, the deregulation now forced companies to open 800 new sales accounts with provincial distributors throughout the country. This called for the creation of regional sales offices throughout China's many provinces, a significant expense for the company.

Investment slowed again in 1995, but was associated with an impressive sales year with forecasted sales expected to rise again in 1996. Estimations would place 1996's cumulative investment at nearly 305 million RMB, three times the amount in 1988. While 1991 and 1995 marked low points in Xian Janssen's investment trend, there was an average of 24 million RMB invested annually between 1988 and 1996.

B - SALES

In terms of its economic performance, Xian Janssen has put up impressive numbers, especially in terms of its gross sales. According to Vice President Zhang Xiongxin, "The sales and marketing department were repositioned as the most

¹⁰⁹Personal interview with Shen Rulin, July 3, 1995.

important departments in November of 1993. People initially didn't like us favoring departments, but our sales record speaks for itself."¹¹⁰ A look at sales figures does lend proof to the validity of the "No Free Lunch" program associated with the same period.

While some trial runs had been made in 1988 and production continued through 1989 and 1990, it wasn't until May 4, 1991 that the company held its grand opening ceremony, opening the entire floor for production. Several products had been selling on the market before that time, but total sales had reached only 183 million RMB. Considering the factory wasn't operating at full capacity, this was still impressive, as it marked the first year that the company's sales surpassed its total investment, and the company showed a profit for the first time.

As the first year of full production, 1991 marked the largest annual increase in gross sales, as figures jumped nearly 200 percent from 147 to 433 million RMB. Sales continued to increase in 1992, increasing by 43 percent to 622 million RMB.

The period between 1992 and 1994 saw extremely limited growth in gross sales, but volume stayed steady, hovering between 622 and 656 million RMB annually. The leveling in sales figures during this period is likely attributable to three factors, all related to growth management. The first factor was the deregulation of pharmaceutical distribution, which made access to customers more difficult. Due to deregulation and also because of the company's fast pace of growth in the previous period, a large new sales force had to be hired. As customers were now spread over the entire country, and because the current staff was working at full capacity, an investment in the hiring and training of personnel was needed. A third and related reason was that Xian Janssen's sales force needed additional training in advanced sales and marketing techniques in order to meet the challenge of competition in China's changing pharmaceutical industry.

President Jerry Norskog refers to this period in 1993 and '94 as a transition from technical culture to managerial culture, during which time all departments worked to improve efficiency and capacity. With the success of the "No Free Lunch" philosophy, the company was in a position to carry out the "Let's Move It!" slogan. People were needed to make the company move, and the employee count was increased to 700 people between 1993 and 1995, with a majority of people being hired in sales. New

¹¹⁰ Personal interview with Zhang, 24 July, 1995.

regional sales managers were trained in Singapore and Australia, and management camps were held annually to encourage and train workers in management skills.

As Xian Janssen established its regional sales offices and linked them through training and communications updates, sales began to increase drastically, achieving a record 922 million RMB in 1995. "We thought the Vice-President and President were crazy--out of their heads, when they gave the sales team their goals," explains Production manager Yu Liping. "I wasn't even sure we could produce at a capacity to meet that rate, but we worked double time and we surpassed their goals."¹¹¹ The increase in sales required cooperation with production teams, and previous drives for company unity were beginning to make strides in this direction.

While sales increases were modest from 1992 to '94, figures have increased every year since 1988. Total sales through 1995 stand at nearly 3.5 billion RMB, the best sales record among China's pharmaceutical foreign invested enterprises. If sales figures in 1996 continue at their current rate, Xian Janssen will again have a record-breaking year, with forecasts predicting more than 1 billion RMB in gross sales.

C - PROFIT

In terms of profit, Xian Janssen's growth has been less steady than its performance in sales. Costs exceeded the income of initial sales in 1989, leaving the company with a net loss of (-23 million RMB). Xian Janssen's investments broke into the black in 1990, with net profit ending at close to 14 million RMB. Operating profit increased dramatically in 1990, moving from 6.7 to 27.9 percent of gross sales.

Xian Janssen's best performance in both net and operating profits took place during 1991-92, when overhead was lower due to the distribution structure. With a streamlined production facility and limited sales personnel, profits were comparatively high. Operating profit shot up to 216 million RMB in 1992, 43.1 percent of gross sales. Net profit likewise increased in 1992, ending at 204 million RMB, or nearly 33 percent of gross sales for the year.¹¹²

Due to the increased expenses for new employees and the highly charged Chinese economy in 1992, '93, and '94, both net and operating profit saw a steady decline over

¹¹¹Personal interview with Yu Liping, 3 July, 1995.

¹¹²Figures were provided by Xian Janssen P.R. Department.

this period. Since 1992, profit figures have fluctuated slightly, showing a shrinking percentage of gross sales figures. While internal information regarding purchasing prices and foreign exchange earnings were not readily available as an analytical reference for this trend, several possibilities might explain this downward turn. First, with the increased competition of other pharmaceutical companies, Xian Janssen has had to maintain a fairly constant pricing on its products, with any increases posing a threat to sales. At the same time China's economic growth has fueled inflation rates, increasing purchasing costs by anywhere from 8 to 20 percent per year. With increasing costs and constant or lowered pricing, the decreasing profit in relation to sales becomes understandable.

While currency rates, export taxes, and other economic trends also affect the fluctuation of profit figures, earnings have been substantial over time. If one accounts for net losses in 1989, total net earnings since that year now stand at nearly 885 million RMB, or roughly 100 million U.S. Dollars (1996). Forecasts estimate that 1996 will bring an additional 170 million RMB, again representing the most earnings of any foreign-funded pharmaceutical venture in China.

D - TAX REVENUE

Another important consideration for China's investment officials is to gauge tax income received from foreign ventures. Xian Janssen has received great praise for its performance here, contributing large sums of both industrial-commercial taxes and import taxes.¹¹³ Through 1992, Xian Janssen had paid a cumulative industrial-commercial tax of 60.2 million RMB, and 82.08 million RMB in import taxes.¹¹⁴ Together, those two figures surpassed the amount of total Chinese investment in the company.¹¹⁵ A large portion of funds for Xian's expressway to its new international airport were provided by Xian Janssen, who each year is among Shaanxi Province's largest tax contributors.¹¹⁶

¹¹³Tax figures are total tax contributions to the Chinese government, including Provincial, State, VAT, and imports.

¹¹⁴Figures taken from China Economic Daily figure, which differ slightly from accounting of State Pharmaceutical Administration records.

¹¹⁵ "China: Top Ten Joint Ventures," p. 5.

¹¹⁶ Personal interview with Norskog, July 4, 1995.

Overall, Xian Janssen's economic performance has done the right things in terms of what Chinese officials are looking for in successful partnerships. Soon to be awarded its third Top Joint Venture distinction, Xian Janssen has gained respect through its dispersion of high technology, quality health care products, generation of state income, and economic clout. Its business success becomes readily apparent in looking at its performance record and the short time it has been in operation.

VI - CHAPTER 4 : PEOPLE-FIRST PERSONNEL DEVELOPMENT

Abstract:

Global economic trends suggest a strong need for companies to focus on developing highly skilled and motivated workers that can add value for specific customer needs. As a large factor in Xian Janssen's success, management techniques are analyzed in terms of their strong emphasis on personnel development. Organizational development techniques that foster effective recruitment, training, and retention of top quality managers are highlighted.

A good general doesn't show off his power.
 A good warrior doesn't get angry.
 A good conqueror doesn't attack people.
 A good employer puts himself below his employees.
 This is called the power of noncontention.
 This is called using the strength of others.
 This is called perfect emulation of heaven.¹¹⁷

A - PERSONNEL DEVELOPMENT

As suggested in the introduction, global companies have had to adapt their focus from the volume of production to the value that they can add to their products. The explosive personal computer industry is a fitting example of this trend. Previously a race between manufacturers of hardware, the industry has now come to be dominated by value-added services and software programmers. No longer are production lines of physical products the engine that drives the industry. Rather, companies that can assemble teams of people that enhance the product's performance have achieved the greatest success.

The "hardware", or technical aspect of a company has likewise become secondary to the "software", or value-adding capability of its personnel. To be a truly successful corporation in this new global environment, companies must provide more than a mass-produced product.

Well-trained and motivated employees are the new mark of success for a company, and Xian Janssen has met the challenge of this global trend. "It is vital that the production side of our company, or 'hardware' works in tandem with the 'software', or employee management culture," says President Norskog.¹¹⁸ The formation of a

¹¹⁷Lao Zi, Tao Te Ching, Translated by Brian Brown Walker, (New York: St. Martin's Press, 1995), p. 68.

¹¹⁸Xian Janssen News

competent workforce and a motivated corporate culture is the proud showcase of the company's managers.

With many companies looking to "poach" Xian Janssen's experienced workers, there is a challenge to maintain quality personnel. "It's a competitive market and we don't always win," says Norskog, "but that just puts higher demands on us to take care of our people and grow our own workforce."¹¹⁹

B - RECRUITMENT

The quality of any personnel development program begins with a company's ability to recruit competent and reliable employees. Any prospective Xian Janssen employee must endure a rigorous selection process before entering the company. Xian Janssen's top managers make selective recruitment a priority, employing a number of techniques to ensure the company's acquisition of quality workers.

Top managers recruit college graduates from China's most prestigious universities, often organizing career seminars for graduating students. All prospective employees must have the poise and language ability to endure a barrage of interviews in both English and Chinese. Smokers are eliminated as candidates, as managers feel that they would not fit well into Xian Janssen's health-oriented company culture.¹²⁰ Additional requirements include a general knowledge of computers and a collection of outside interests. Applicants must also demonstrate the competitive attitude the company is looking for. If a candidate doesn't know his class rank, for example, Xian Janssen is not interested. "Competitive people know where they rank," says Norskog.¹²¹

Once hired, employees must go through a standard training program as probationary employees for three to six months before joining the permanent staff. Many of the employees who leave the company, which had an attrition rate of 14 percent in 1993, do so in this period. If the employee's performance is satisfactory, he is then provided with training to develop specific technical or managerial skills.

¹¹⁹Personal interview with Norskog, 3 July, 1995.

¹²⁰ "U.S. Firms Nurture Chinese Managers," Asian Wall Street Journal, 25 August, 1994, Sec. B, p. 1, col. 2.

¹²¹ "Putting the Corps into Corporate," p. 51.

Training is administered on an ongoing basis through seminars, coaching, and lectures, and each employee's training record and productivity is monitored by computer.¹²²

C - TRAINING

Today, the scope of Xian Janssen's business and employment needs has increased dramatically. With roughly 700 workers with an average age of 28 years, it must incorporate training programs at many different levels in order to remain successful. Besides actual recruitment training, each employee is subject to fulfill 100 hours of training annually. This breaks down into two 2 hour periods a week in which department heads supervise their workers training in new procedures or learning about the responsibilities of other department members.¹²³

In addition to the 100 Hour Training Program, seminars have been organized regularly since 1992. A training workshop was provided for new sales managers in Singapore in March of 1993. Other educational seminars and meetings have been organized in from Shaanxi to Australia, giving workers cause to improve their skills through exposure to other local and international enterprises.

Because workers have such ample opportunity to acquire new skills, some have begun to call the company *Janssen Daxue*, or Janssen University. With the new competitive climate in China, many workers express their appreciation for the opportunities to be well-trained in many different areas of the business. "I think training and career opportunities are what makes Xian Janssen unique," says newly appointed manager Deng Kangming. "Salaries are average for the industry, but people are happy to be here because of the many opportunities to gain skills that can advance our careers."¹²⁴ This also allows the company to be more versatile, as many employees can be mobile and are often transferred to other departments when the need arises.

Xian Janssen's aggressive stance on providing education is also an opportunity it has seized in filling the vacuum of secondary education in China. With only 1.5 percent

¹²² Personal Interview with Luan Jianghong, Public Relations Department Manager, 23 July, 1995.

¹²³ Personal interview with Hao Tongyun, 24 July, 1995.

¹²⁴ Personal interview with Deng Kangming, 24 July, 1995.

of all college age students currently enrolled in universities, the company is tapping into China's hunger for practical training.

For its salespeople and top Chinese management, Xian Janssen holds additional "spirit" training camps. Held once or twice a year since 1992, the camps foster friendly competition among the workers and allow managers to identify capacities for independence, initiative, and teamwork among workers. Lasting from two to ten days, each camp brings staff together for workshops, lectures, and management games, interspersed with physical exercise.

A typical camp day begins at 5:30 am, and all employees make a long morning hike, singing the company song and developing team spirit. Along with motivational speeches from current managers, tasks are put before the workers.¹²⁵ One test was for each member to prepare a spontaneous 1,000 word presentation on some aspect of the company. Workers were then given five minutes to strengthen and revise their presentation to be given to the company president. After the exercise, other workers are asked to critique and support the performance, ranking those who best met the challenges of each situation. In this way, workers are trained while bonding with one another, and they naturally select those leaders that will gain promotion through their camp successes.

As the creator and overseer of the camps, President Jerry Norskog sees intensive training as essential to his company's organizational development. While International standards suppose 7 years of post-college business experience will suffice to prep most managers, the situation in China is different. Both business experience and college training in China are new and rare qualities, so managers have to be groomed and trained quickly. Norskog sees the training camps as a way to provide training and test aptitude at the same time, "killing two birds with one stone."¹²⁶

Training therefore encompasses not only the learning of business skills, but the promotion of management initiative that has become the company's culture. The drive to develop Chinese managers has not been taken up by all companies in the China market, and many CEO's refuse to delegate authority. "The top man is clearly in charge," says a senior executive of a Chinese multinational. "Everyone else is an

¹²⁵ "860 Million Yuan: A Fancy Dream Turned into Reality." **Xian Janssen News**. Xian Janssen P.R. Department, March 3, 1994, p. 6.

¹²⁶ Jerry R. Norskog. Personal Interview. July 24, 1995.

executor.”¹²⁷ This is clearly a marked difference from the delegated management style encouraged by Norskog. “We encourage our workers to consider themselves equal to management and to challenge the performance of others with constructive criticism,” he says. “So we force opportunities on them and reward even a twitch of a response.”¹²⁸

With the establishment of the 100 hour training program, international seminars, training camps, and daily learning opportunities, Xian Janssen has dedicated itself to developing a competent work force. By having opportunities to acquire technical skills and pursue initiative, the company is grooming workers that can add value in many areas of its business

D - RETENTION

Given the amount of time and energy that Xian Janssen puts into training its employees, the venture must also work hard to hold on to them, a task that is increasingly difficult due to competition from new foreign enterprises. Competitors in the pharmaceutical industry have been willing to pay higher salaries and benefits in acquiring Xian Janssen’s well-trained staff.¹²⁹ Still, company managers have avoided a high attrition rate by being personally supportive of employees. “Turnover rates are changing so fast that no reliable averages are available,” suggests Anne Stevenson-Yang, “but most FIE managers would agree that Xian Janssen’s 14 percent is low.”¹³⁰ The firms managers show dedication and support for workers, believing that their attitudes will permeate corporate culture and make the venture an attractive place to work.

The company’s best potential managers are therefore given opportunities to pursue advanced academic training in the United States or Belgium. Opportunities for

¹²⁷ “China: The Emerging Economic Powerhouse of the 21st Century,” in Business Week, 17 May, 1993, p. 64.

¹²⁸ Personal interview with Norskog, 23 July, 1995.

¹²⁹ Within weeks of interviews done the first week of July, 1995, two top Chinese managers previously interviewed by the writer left the company for better offers from European pharmaceutical companies just entering the China market. The company’s attrition rate was a concern in 1995, as it seemed to be increasing slightly from the previous average of 14%.

¹³⁰ “Putting the Corps into Corporate,” p. 51.

internships or training seminars have been offered at Belgian Janssen's other production sites around the world.

The company recognizes that other more tangible benefits must be made available to retain staff. Its programs in housing, medical, and security benefits are more extensive than Chinese contract law requires. The housing project, in particular, is an innovative program that has been popular with employees. The idea was created as a savings scheme that the company promotes, allowing workers to purchase their own housing over time.

Based on Singapore's Provident Fund, the program has been adapted to China. Employees contribute 25 percent of their base pay to the housing fund, and the company matches by adding 35 percent of each employee's wages. The company arranges to build or buy apartment units and then sells them to employees through the fund.¹³¹

The plan allows employees to be full owners within ten years, and the goal is for all workers to eventually have their own housing. It's what our employees need and want." According to Norskog, "Providing housing is socially responsible given China's housing shortage, and it makes good sense to retain good people."¹³²

In providing superior benefits in training and housing programs, Xian Janssen makes up for a salary and benefit package that is average or sometimes less than those of its competitors in the pharmaceutical industry. The most important consideration seems to be an appeal to the collective opportunities for career development in Xian Janssen. The most important thing, in Norskog's words, "is that employees think they're going someplace and are persuaded to buy into the company ethos."¹³³

Xian Janssen's ability to put its people first has added to the quality, ability, and duration of its workers. This skill level, along with the cooperative but motivated company culture that creates it, has made Xian Janssen a favorite between consumers and workers alike. In the future, this will be the hallmark of the company's success, as Chinese management will overtake positions of foreign managers. "Expats are a sort of

¹³¹Personal interview with Meng Fanfu, 3 July, 1995.

¹³² "Putting the Corps into Corporate", p. 51.

¹³³Personal interview with Norskog, 24 July, 1995.

necessary evil,” says Norskog. He notes that the company has trimmed its expatriate employees from 50 when the joint venture was being set up to a current staff of eight.¹³⁴ As a company that prides itself on its people-first orientation, Xian Janssen will likely be able to fill its expatriate management gaps with a much smoother transition than other foreign ventures. Given its average age of 28, the leadership skills among the company’s young workforce promises to keep the company at its top spot in China’s pharmaceutical industry for years to come.

¹³⁴Bob Hagerty, “U.S. Firms Nurture Chinese to fill Management Gaps,” The Asian Wall Street Journal, Vol. XVIII, No. 255, 25 August, 1994, Sect. A, p. 1, col. 6.

VII - CHAPTER 5 : CROSS CULTURAL MANAGEMENT TECHNIQUES

Abstract

The economic explosion in Asia and now specifically in China raises challenging questions about the different cultural forms in the modernizing process. China's cultural tradition draws on its historic past, its family-oriented society, and an emphasis on human relationships. Xian Janssen has incorporated each of these traditions into its management culture, translating into successful business partnerships. The programs that foster these cultural values are examined with a view as to how each program has enhanced the company's scope of business within the Chinese cultural context.

Fostering a company ethos within the context of the Chinese cultural identity has been a key element of Xian Janssen's success. While the transition from production to management culture was a trying time for Xian Janssen, it enabled the company to reach the next stage of its development. In many ways, it was the company's ability to translate Western ideas into a Chinese language that made sense in particular Chinese contexts. The mere attitude of showing respect to Chinese culture marked a change from previous management, and an emphasis on developing human relationships is what has been and continues to be the company's outstanding feature.

A - APPEALING TO CULTURAL AND HISTORICAL IDENTITY

By allowing Western agendas to develop through Chinese values and traditions, President Jerry Norskog discovered a unifying management tool that gives workers ownership, pride, and investment in their company. "Teaching management values in China isn't about adaptation," insists Norskog, "it's about integration."¹³⁵ Norskog and other top managers argue that modern management techniques aren't Western, but in fact were anticipated by philosophies and writings of Chinese classical thinkers.¹³⁶ The approach is not to confuse workers with foreign terms, but to "bring the ideas home to them and let them be proud."¹³⁷

Rather than trying to reinvent techniques for motivation, Norskog appeals to what he sees as a great resource of Chinese historians and thinkers that have always been accessible as examples of leadership. By upholding ideals from such thinkers as Sun Zi

¹³⁵Personal interview with Norskog, 24 July, 1995.

¹³⁶ "U.S. Firms Nurture Chinese Managers," col. 3.

¹³⁷Personal interview with Norskog, 24, July, 1995.

and Mao Zedong, Norskog believes managers can give workers pride in their actions.¹³⁸ With this attitude, new changes in Western business culture can gradually be absorbed through motivation and an appeal to China's past.

Examples of this tactic are prevalent in Xian Janssen. The phrase "Let's move it" was taken from the Chinese folk tale about an old man's conviction to finish an impossible task. By appealing to their collective experience of this story, managers were able to inspire workers to a higher need than corporate profits.

Teachings from Sun Zi's war strategy are often made use of in training camps, calling for people to be assertive in leadership roles. The Chinese tendency to not compete publicly can be overcome through these reminders of China's strong past.

The leadership camps themselves have a schedule not unlike military exercises, and workers are asked to stand up to the level of past leaders and events. Fragrant Hills is near the Great Wall outside Beijing, and it is a place that itself evokes feelings of pride and unified cultural heritage. "Spirit" camps have taken place here in 1994 and again in 1996. During the training program, words like "Long March" are used to give higher cause to the company's efforts. These goals are used in conjunction with historical references to Mao Zedong and his philosophies of rugged determination and self-reliance. As the camp leader, Jerry Norskog gives lectures on historical tactics of the Red Army, also referring to Liang Zhuge's craftiness in Romance of the Three Kingdoms. The central tenet that is promoted in these ancient stories is to be alert, prepared, and strategic in warfare actions. Xian Janssen makes use of these stories to encourage action-oriented employees that view their ambitious work values as being rooted in their own cultural traditions.

All of Xian Janssen's leaders are required to read the book Iron Fist, Velvet Glove, by Konosuke Matsushita. The book is a full collection of Asian perspectives on effective leadership, drawing on many of the same Chinese philosophers that Norskog makes use of in training camps. "I have great admiration for the Chinese," he explains. As a Westerner, Norskog clearly believes in the power that historical and cultural references have in creating a winning spirit of leadership.

This management attitude makes important use of one of the five cardinal relations in Confucian thought. In appealing to the leaders of Chinese history, workers are

¹³⁸Personal interview with Norskog.

confronted with an idea that has already been embedded in their sense of *yi*, which can be translated as integrity, or righteousness.¹³⁹ In the hierarchy of Chinese relationships, this is the sacred connection between ruler and subject.¹⁴⁰ Something as simple as firing a worker for poor performance is legitimized only after being related to long held principles in the Chinese tradition. By appealing to cultural identity, a Western manager may include himself in a relationship with a Chinese worker by using a command or ideal that springs from the established knowledge of Chinese philosophy.

B - UNITY AND FAMILY VALUES IN THE WORKPLACE

Sun Zi's over-riding principle underlying human aspects of strategy implementation is that of unity. In the Chinese classic The Art of War, Sun Zi maintains that in order to win wars, "there must be unity of minds and hearts from the ruler to the subjects....In particular, those who are directly involved in combat must be united in purpose and be one accord in order to achieve victory."¹⁴¹ While Xian Janssen is not at war, its struggle to introduce non-traditional behavior patterns has been advanced through appeals to the Chinese devotion to unity and family relationships. The company has shown a dedication to its employees that often brings out comparable emotions.

According to Ambrose Yeo-chi King¹⁴², the Chinese term *jia*, or family, is an elastic term for a basic social unit. King maintains that

...it is entirely up to the individual to contract or expand the boundary of the concept of *jia*. It can theoretically be extended to an unlimited number of people and thereby becomes what is called *tian xia yi jia* (all the world belongs to one family, or literally, all under heaven.)¹⁴³

¹³⁹ Due to the complex interpretation of *yi* in Chinese philosophy, further elaboration on its translation of the term no doubt warranted. Hear my point is merely to clarify the company's impact in referring to heralded leaders of China's past.

¹⁴⁰ "Guanxi and Network Building," p. 112.

¹⁴¹ Wee Chow Hou (Wei Qiaohou), Sun Zi: War and Management, p. 146.

¹⁴² Pinyin spelling of the name would be Yaozhi.

¹⁴³ Ambrose Yeo-chi King, "Kuanhsi and Network Building," in *The Living Tree*, ed. Tu Wei Ming (California: Stanford University Press, 1994), p. 113.

While the concept of *jia* may extend to large social groups, the hierarchy of relationships in Chinese society places the family as the most sacred, commanding unquestioned devotion.

Xian Janssen has earned the respect and devotion of its workers, bringing a familial feeling to the work environment. In a speech given to employees in 1994, Chairperson of the Board Madam Zheng Hong portrayed the company's role as a larger family:

In Xian Janssen, the word family sounds like nothing new to us, though each of us may have quite a different understanding of it....I remember our late premier Zhou Enlai once said that 'to fight for the rise of China makes one a useful person.' Xian Janssen today is making great efforts to live up to that goal. In doing so, Xian Janssen has made itself worthy of the holy name of a family.¹⁴⁴

In this case, workers can identify first with their national family embodied by the historic figure of Premier Zhou, and secondly with the larger cause their company represents, thereby earning their familial loyalty.

One family-type ritual the company stands by is staging large-scale, memorable events in which the staff participate. Whether the occasion is to provide training, launch a new product, celebrate a historic event or simply enjoy a company "sports day", such events have taken place once or twice a year since 1992. "Part of creating great companies is having a huge, shared event," says Norskog.¹⁴⁵

In July of 1994, for example, the company's new dandruff shampoo, Triatop, was launched by 200 company staff in Lhasa, capital of Tibet. The event was called "Triatop from the Top of the World," and included contests, awards, and activities for the entire audience.

Even more directly reminiscent of a family event was the 10th anniversary celebration of the joint venture signing. On October 22, 1995, nearly 600 employees gathered for a full day of celebrations. After raising the national and company flag at dawn, every employee joined in separate sporting and game competitions, each one focusing on the importance of team cooperation. In the evening, a talent contest was held, with each department taking part. The company also sponsored a wedding

¹⁴⁴Madam Zheng Hong, "Xian Janssen, Our Family," in Xian Janssen News, Public Relations Department, Nov. 4, 1994, p. 11.

¹⁴⁵ "Putting the Corps into Corporate," p. 51.

banquet for 10 different employee couples, paying for the entire dinner and elaborate bridal gowns and gift packages.

As a record for the event, a company booklet was put together with essays and stories submitted by workers from around China. Titled "Our Home," the work held many different examples of how employees had come to appreciate the company as their family.

This family-based orientation of the company is one aspect that noted scholar James Fallows suggests as a principal aspect of the success of newly emerging Asian economies in general. Mr. Fallows maintains that companies in China and other Confucian based cultures of Asia have a deep belief that the company and state should not only provide material wherewithal for its people but moral guidance and social support as well.¹⁴⁶ While Western concepts might feel that this "guidance" is a hindrance to the "individuality" of workers, Fallows and other authors are quick to point out that different forms of guidance and repression of individual primacy have been a key factor in the efficiency and economic successes in Asian countries. Fallows elaborates by saying, "through their (Asian companies') determination to control individuals they have up to this point made the whole society, including its business sector, function more effectively than in the West."¹⁴⁷ While the translation of such values to the Western context are debatable, there is no doubt that the "Megatrends" of Asia have authors such as John Naisbitt proclaiming that the close-knit, familial structure of Asian societies have lessons that Western economies may do well to learn from.

While American firms have tended to separate familial relationships from the workplace, new trends suggest that familial roles such as Xian Janssen has played foster a work environment that is both more enjoyable and more productive. American employee-owned companies like Saturn have attempted to achieve these kinds of results with some success. Others like Nike and Microsoft are known to promote their own familial culture, encouraging family visits or extended stays at beautiful office complexes referred to as "campuses." The fact that Xian Janssen has tapped into a Chinese cultural value with its familial role has brought value to its dedicated workforce and enjoyment to its work environment.

¹⁴⁶ Fallows, p. 218.

¹⁴⁷ Ibid., p. 412.

C - GUANXI AND THE HUMANIZING OF BUSINESS RELATIONSHIPS

From the outset of Xian Janssen's turnaround in 1991, a salient management feature has been to promote and foster the positive aspects of the Chinese tradition of *guanxi*, or personal relationship networking.

The 1991 crisis called for a solution to unify management that was achieved through the development of relationships and network building. Ironically, this tradition is naturally much more familiar to the Chinese value system than the bottom-line orientation of business in the Western tradition. By meeting this crisis in a Chinese context, new managers discovered a powerful tool in developing Xian Janssen's company identity.

As a central pillar of Xian Janssen's management culture, the emphasis on relationships, or *guanxi*, warrants further elaboration. What follows is a brief definition of the Chinese term, with comments and insights from leading Sinologists. This will be followed by an analysis of current Xian Janssen programs that have developed as a result of the company's ability to balance positive aspects of *guanxi* relationships with its own needs for market rationality.

Given the differences in Chinese culture and the economic system, appreciating the basic value of *guanxi* has enabled Xian Janssen to develop pioneering business programs, both internally and externally, that are integral to the company's current success.

In order to appreciate the origin and scope of *guanxi* as a concept, it is first necessary to examine how it is conceived in Confucian social theory. Broadly speaking, Confucian social theory is centered around the aim of seeking a harmonious order in the secular, man-centered world. Confucian thought assumes that man cannot exist as a solitary, isolated individual, but rather derives his identity as a social being, through interaction with other members of a community. As such, the values and ideals of Confucian thought are based on a sense of righteousness or benevolence that takes the communal, rather than individual good as its object. The final social organization, however, is based on neither the individual or the community. Liang Sou-ming¹⁴⁸ explains :

¹⁴⁸ Pinyin spelling of the name would be Liang Suming.

The focus is not placed on any particular individual, but on the particular nature of the relations between individuals who interact with each other. The emphasis is placed on the relationship.¹⁴⁹

Abrose King emphasizes this point, saying that it is no accident that the Chinese character for benevolence, or *ren*, literally means two men.¹⁵⁰ The concept of an individual as separate from other men does not exist in the Confucian tradition. The central aim of Confucianism, then, is to determine what constitutes proper human relationships.

It is between the combination of inherited relationships and a space for voluntary relationship building where one's identity arises. While partly defined by inherited relationships, the individual is also capable of defining roles for himself and others in those relations where he can pursue or discourage connections.

While traditional Confucian culture did not instil in citizens a sense of awe and majesty in the rule of law, Lucien Pye, a noted scholar on *guanxi* relations maintains that "it did have a body of moral precepts and rules of correct conduct which provided the mystique of legitimacy....The Confucian moral order was in a sense the functional equivalent of the legal systems of the West."¹⁵¹ Pye expands on how the Confucian moral order rested on a complex set of relationship building that in effect was an informal system of checks and balances to constrain power and create consensus building. He describes the tendency in the following way:

In operational terms the Chinese concept of administration entails a structure of authority which is governed by human relationships that extends from the "leading figure" to his deputies and on down a chain of status relationships. Superiors and subordinates fit together, not by a book of rules but by the more deeply ingrained rules of proper human relationships. Authority lies not in an objectified body of laws or moral codes, but in subjective understandings of the meaning of leadership, superior-subordinate relationships, and the rewards of showing deference to higher status and in return accepting command over inferiors. In a system of rule by men, not by laws, successful governance requires skills in reading character, building and maintaining personal relationships, and meticulously performing one's expected roles.¹⁵²

¹⁴⁹Liang Sou-ming, *Chung-kuo wen hua yao-yi* (The essential features of Chinese culture) (Hong Kong: Chi-cheng T'u-shu Kung ssu, 1974), 94.

¹⁵⁰Ambrose Y.C. King, "Kuan-hsi and Network Building," in Tu Wei Ming, ed., *The Living Tree: The Changing Meaning of Being Chinese Today* (Stanford: Stanford University Press, 1991) 111.

¹⁵¹ Pye, p. 39.

¹⁵² Ibid., p. 39

It is precisely these skills that Xian-Janssen has honed in its public relations programs with government agencies, and its careful and strategic programs that have been designed on the pretext of building proper relationships and conforming to expected roles placed on the company from its “superiors,” or government regulators.

Within this framework of relationships, one’s position or achievement can be enhanced through “pulling” *guanxi* (*la guanxi*). Pulling *guanxi* means to establish or strengthen relations with others when no immediate relation exists, or when the connection is remote.¹⁵³

As actors in the Chinese market, modern joint ventures have had to deal with the challenges of Chinese *guanxi* networks as well. As a private business, Xian Janssen does not enjoy the immediate support of state bureaucratic structures, and has had to be careful about which kind of *guanxi* relationships it promotes, both internally and externally.

Internally, Xian Janssen has had to both encourage and discourage different types of *guanxi* relationships. In many ways, the group activities and familial roles mentioned above are aspects of “pulling” *guanxi*, or fostering a feeling of interdependence among workers that brings returns in hard work.

The negative aspects of *guanxi* relationships, on the other hand, must be kept in check. The focus on controlling recruitment by top managers, for example, ensures that only well-qualified applicants will be selected. The meritocracy of the process aims to curb the Chinese tendency to offer favors to members of one’s family or social network.

By far the most effective “pulling” of *guanxi*, however, has been the company’s ability to foster reciprocal relationships with China’s pharmaceutical regulators. The venture has nurtured relationships with State medical representatives, China’s Ministry of Health, the State Pharmaceutical Administration, National and local governments, and even its state-run supplier companies. The relationships have been proactively pursued with management and educational programs that encourage partnerships through the giving of “gifts” that come in the form of training, contributions, and face-to-face human interaction.

¹⁵³King, *The Living Tree*, p. 116.

In fact, an analysis of the ranking system used by China's selection committee reveals a very communal-based, Confucian oriented set of standards from which to select the most prestigious company. The fact that Xian Janssen's employee benefits, P.R. programs, social training, and community contributions all fit within this value system are a reason the company is so often recognized. What follows are several examples of those programs.

1. MEDICAL EDUCATION-RESEARCH PROGRAM

In order to strengthen ties with the local community and consumers, Xian Janssen has established a medical education and research program. The program aims to reach out to local doctors and educators in relating the latest news in treatment and technical developments. Recognition and awards are also given to those researchers and educators who demonstrate a commitment to their industry.

In order to increase the audience of the education program, Xian Janssen has begun a national radio broadcast. Through China's Central Radio Station, a program named "Sunday's Xian Janssen Health Program: Questions and Answers" is aired weekly. The program does introduce and educate the public about the uses of its product, but general health issues are also covered. Each week a noted physician is interviewed on the program, and preventative and treatment methods are discussed. The broadcast attracts an audience estimated to be larger than 500 million listeners, and the radio station averages 400 daily response letters to the program.¹⁵⁴

Education continues in the Sales Department, as salesmen routinely schedule meetings with doctors to discuss product development and physical effects. Personal meetings are also complimented by occasional symposia, where several doctors and purchasing agents are invited to take part in educational conferences. As many doctors are not in touch with advances in Western medicine, the educational meetings and symposia are valued as continued education in the medical field.¹⁵⁵

¹⁵⁴ Xiong Jiying, "Xian Janssen on the Radio," (Xian: Xian Janssen Public Relations Department, May 15, 1994), p. 23.

¹⁵⁵ Personal interview with doctors at a Xian Janssen sales presentation that the writer attended in Beijing. Doctors all knew the Xian Janssen sales representative, and they noted that her information was often the latest updates they had access to about modern pharmaceutical treatments and uses. 24 July, 1995.

2. GOOD MANAGEMENT PROGRAM (GMP)

Promoted by the World Health Organization, the GMP is a standardized set of management procedures that are used in the pharmaceutical industry. As Janssen was one of the first pharmaceutical investors in China, it has offered to train Chinese industry officials in the GMP program free of charge.

In October of 1993, Janssen sponsored its first training program for senior executives in the State Pharmaceutical Administration Bureau. Since that meeting, various informal training sessions have been held, along with annual October training programs. The sessions consist of pharmaceutical experts from Europe and Belgian Janssen who give presentations on general management techniques and suggestions for implementation. China's Director of the State Pharmaceutical Administration Bureau, Zheng Xiaoyu, has commented that much of his administration's progress can be attributed to the guidance of Xian Janssen's GMP training.¹⁵⁶

In offering the time and instruction of its managers for free, Xian Janssen has again demonstrated devotion to China's own pharmaceutical development. By making contributions and contacts to key people in its industry, the company makes itself known and respected. By helping the industry to standardize its management and accounting procedures, it also makes business easier for itself in the long run. If suppliers and clients use the same management procedures, both sides can avoid miscommunication, duplication, quality control, and accounting problems.

3. SUPPLIER QUALITY PROGRAM (SQP)

The supplier Quality Program is a special program initiated by Xian Janssen to develop a long-term, mutually beneficial relationship with its suppliers. The idea is for Xian Janssen to offer additional technical and capital contributions to those of its suppliers that have shown the best records. Beginning in 1991, Xian Janssen began to develop a packaging product with its supplier, Shanghai New Asia Pharmaceutical Factory. In order to package its product Daktarin, Xian Janssen needed to purchase an aluminum tube dispenser. Because Janssen had the know-how to make such tubing, they have cooperated with New Asia's Jinshan plant to develop production. After three years of cooperation, the supply network is now in place. For Xian Janssen, this investment allows them to deduct \$12 million yuan annually from the production of

¹⁵⁶Zheng Xiaoyu, "GMP Senior Training Program, 1994: Opening Speech," **Xian Janssen News** (Xian: Xian Janssen Public Relations Department, Nov. 12, 1994) p. 22.

Daktarin.¹⁵⁷ Additionally, their supply material is now on par with international standards, increasing their product's overall marketability. This creates a cooperative relationship with the New Asia Company, which now receives the net profits of Xian Janssen's annual order of 20 million aluminum tubes.

4. COMMUNITY DONATIONS

Other than the amount of foreign exchange and tax revenue that Xian Janssen produces for the local community, it has often made highly visible social contributions. While this has deductive uses for tax purposes, Xian Janssen has been effective in supporting popular causes in Chinese eyes. Recently, a Panda bear conservation and research project was funded in Sichuan province. Similarly, the company has funded several archaeological sites in Shenyang and elsewhere that have facilitated the finding of ancient cultural relics. In 1994, the company donated 100,000 RMB to the Southern China Sports Meet for the Disabled. Local officials and laypeople alike are grateful for these contributions that are supportive of the community. By making high profile contributions in the interest of promoting community identity, Xian Janssen has further bolstered its image as a model joint-venture.

5. JANSSEN RESEARCH COUNCIL (JRC)

The Janssen Research Council, or JRC, established a medical research award with China's Ministry of Health in May of 1994. As a symbol of partnership, the award was established in two parts. The first honors the name of Dr. Wu Jieping, Vice-Chairman of the Standing Committee of the National People's Congress. The second carries the name of Dr. Paul Janssen himself. Xian Janssen donated \$ 2 million yuan (about \$230,000 USD) to the establishment of the awards. Their intention is to encourage Chinese researchers to contribute to the country's pharmaceutical development. The awards are to be given to outstanding achievers in the fields of surgery, family planning, pediatrics, pharmaceutical chemistry, and pharmacology. Awards will be given annually in October, with each recipient winning \$10,000 yuan (\$1,150 USD).¹⁵⁸ The hopes of Xian Janssen are to encourage young researchers to follow in the footsteps of the honored scientists, and to demonstrate its support for China's continued pharmaceutical development.

¹⁵⁷Army, "SQP Blazes a New Trail," **Xian Janssen News**, Xian Janssen Public Relations Department, May 5, 1994, p. 7.

¹⁵⁸ "Prizes for Medical Experts," in **China Daily**, May 6, 1994, p. 4.

A principal personality behind the Council is Dr. Wu Jieping, a famous medical doctor throughout China and a graduate of Beijing's Yanjing University. Dr. Wu became a close friend of Dr. Janssen throughout the company's business negotiations, and the two teamed up to create a council that would give back part of the company's proceeds to the common good of the industry.

At the announcement of the JRC award ceremonies, Dr. Wu Jieping was outspoken about Xian Janssen's role in China. He commented on the household familiarity with Xian Janssen and stated that "this company pays attention not only to its economic returns but also its contribution to community benefits."¹⁵⁹

With the establishment of the JRC awards in China, Xian Janssen has increased its personal connections with both the Standing Committee and the Ministry of Health. Its name is now associated with one of China's premier award recognitions, and immeasurable free advertising and exposure came with the initiation. The donation was covered by no less than nine major news sources and pharmaceutical publications.¹⁶⁰

Besides being effective public relations maneuvers, these programs are effective ways for Xian Janssen to honor its relationship to the doctors, patients, consumers, researchers, and health care officials that the company depends on. Through these innovative contribution programs, Xian Janssen is the first to recognize the people that make its business a success, and to show its appreciation accordingly. In short, the company develops human relationships with its customers at all levels, reinvesting its profits into the different tiers of its various business relationships.

For Xian Janssen, the effort takes time and energy, but it also improves the efficiency of their largest clients, making communication easier and building a relationship of interdependence. For president Jerry Norskog, this effort in essence is comparable to the Chinese proverb, "Give away a brick and get back a piece of jade." (*yi shi huan yu, or chuntu huan doujing*).¹⁶¹ Rather than investing solely in advertising, the

¹⁵⁹ "China's Medical Award," in **Xian Janssen News**, Xian Janssen Public Relations Department, May 15, 1994, p. 12.

¹⁶⁰Ibid. p. 14.

¹⁶¹Personal interview with Norskog, 21 April, 1996.

company has invested in the community, thereby increasing its public recognition and access to administrative favor.

Part of the company's ability to "pull" this kind of *guanxi* with the State stems from its long-term view and recognition of interdependence. While many American ventures operate on a traditional "bottom line" business assumption, Xian Janssen realizes that the State and Provincial governments still control many economic variables in China, and cannot be viewed as anything less than a long-term partner.

The state also has done its part in giving the company recognition for those areas in which it sees the company supporting its own long term interests. The recognition mentioned in Chapter one of the company's advanced environmental protection of waste materials is one such example. The indirect spending the company placed on its strong environmental controls was fitting with the central government's plan to increase spending on environmental protection from .67 to .85 percent of the country's GNP on environmental protection between 1991 and 1995.¹⁶² The company was therefore awarded high profile recognition and awards that aided its public relations and marketing efforts.

Again referring to a Chinese saying, Norskog claims that in China, "You can't forget the man that dug the well you drink from." (*he shui bu wang wa jing ren*).¹⁶³ In business terms, this is simply a recognition that as shapers of the economy, doctors, patients, and government ministries are the end purchasers of Janssen products, and their relationship should be compensatory on both sides. While some American firms try to distance themselves from what they see as a conflict of interest or series of "payoffs" expected by officials, Xian Janssen regularly approaches the government, offering monetary and training benefits without solicitation, but on its own terms. All companies have a bottom line to consider in business, but they will often differ on how far down the ledger page it is drawn and which factors are considered above the line. Contextually, the initiative to contribute to selected entities is therefore not necessarily a personal payoff if done on a company's own terms. Rather, it is a business exchange in cultural context that allows the company to promote select training and values that will be to its long-term benefit.

¹⁶² World Resources, p. 61.

¹⁶³ Personal interview with Norskog, 4 July, 1995.

As Xian Janssen has shown patience and cultural accommodation, and because it has defined its programs in terms of mutual benefit with its business environment, the company has done well in China. The company usually gets its way in business, and has been rewarded with millions of dollars in business, free advertising, and notoriety in being recognized as China's top venture.

VIII - CHAPTER 6 : CONCLUSION

Abstract:

The rise of China is reviewed as a challenge to many long-held Western assumptions, suggesting a need for new interpretations and partnerships in the future. Xian Janssen's Strategic Partnership initiative is introduced as a culmination of its management policies that encourage long-term cooperation with Chinese partners. Xian Janssen's achievements are then viewed for their ability to balance strategic interests with cultural identities in the emerging web of global relationships.

As the most dynamic region of sustained economic development since the Second World War, the rise of Japan and the Four Asian Dragons (South Korea, Taiwan, Hong Kong, and Singapore) raises challenging issues about tradition and modernity. In particular, China's economic opening has spurred changes and growth that suggest a modernizing process that may take different cultural forms. Has the rise of China and East Asia's *guanxi*, or network-oriented capitalism produced a new alternative to classical Western capitalism?¹⁶⁴ Culturally, does China's modernization portray a successful example of combining Western investment and technology with traditional values and practices, or is it simply a passing phase, soon to be erased by full-scale modernization defined with cliches of the 20th century Western world?

In the case of Xian Janssen, it seems that the answer to these questions should be viewed neither in the affirmative nor the negative. Rather, the questions themselves provide a sort of answer, suggesting that it will be found in the *relationship* between East and West. Rather than defining one or the other model as a dominant trend, it should be noted that the most powerful alternative lies in partnerships that incorporate the best qualities of each perspective.

A - A MODEL FOR SUCCESS

Upon viewing Xian Janssen's experience in China, it becomes clear that the company has overcome numerous obstacles and setbacks in becoming the successful venture it is today. That success has not been guaranteed, but is rather the result of an effective business model that makes use of the best aspects of both Western and Chinese styles of management.

¹⁶⁴ Tu Wei-ming, "Cultural China," in The Living Tree: The Changing Meaning of Being Chinese Today, ed. Tu Wei-ming (California: Stanford University Press, 1994), pp. 6-7.

According to the changing market environment in China, the company has had to react with different management styles. At times its reliance on meritocracy, corporate culture, and aggressive business tactics have provided a comparative advantage, allowing the company to increase its activity and share in the pharmaceutical market. At other times, a respectful and deferential attitude toward Chinese regulators, and an almost Confucian-based family relationship among company employees has also improved the company's community image in China. This ability to employ characteristics of Western and Chinese origin has made Xian Janssen a more versatile commercial enterprise and a more respected presence in China.

As China's economic opening has progressed, so too has Xian Janssen's ability to act as a high value enterprise in the global economy. While it was once a struggling foreign enterprise in the Chinese market, it has now acquired the skills and abilities to act as an international global subsidiary with the special advantages of knowing how to operate within the tumultuous and complex Chinese market.

B - STRATEGIC PARTNERSHIP

Xian Janssen's most recent corporate maneuver in China fits well with the positive relationship it has sought with Chinese partners. Under the initiative of Xian Janssen, Johnson & Johnson consolidated its China ventures into a single holding company to forge a "Strategic Partnership" agreement in May of 1995. Under the leadership and reputation of Xian Janssen, the holding company planned and executed its partnership with the Ministry of Health and the State Pharmaceutical Administration Council. As co-chairman of the steering committee, Jerry Norskog has convinced top Chinese regulators in health care that Johnson & Johnson is willing to back up its investment with a long term partnership. In this way, Xian Janssen has pulled its parent company to the fore as one of China's leading multinational actors in the Chinese pharmaceutical market.

The cooperative effort was signed on May 29, 1995 as an agreement to work cooperatively toward universalizing World Health Organization standards in China by the 21st century. Building on the company credos of both Johnson & Johnson and Xian Janssen, the partnership makes a long term commitment to investing in the quality and infrastructure of health care in China.

The partnership itself is a vehicle for combining the five existing holdings of Johnson & Johnson in China, thereby adding value to different niches in the health-care market

with expertise in prescription, over-the-counter, and consumer-oriented health care products. These five enterprises will work together with China's Ministry of Public Health and the State Pharmaceutical Administration toward improving China's overall health care.

The vision for the partnership will be carried out through the leadership of a steering committee and four specialized committees: Advanced Medical Education, Regulatory Affairs, Public Health Programs, and Research and Development. The first phase of the agreement is a five year plan that can be further extended according to common consensus from both sides. A total of 17 individual projects have been completed since the signing, with a budget of 2 million US dollars.¹⁶⁵

Building on Xian Janssen's initiatives in training, research, education, and contribution programs, Johnson & Johnson will add value to its products by aiding the development of China's health care agencies. As co-chairman of the steering committee, Zhao Tongbin has remarked :

...In China's fast changing environment, the prosperity of an enterprise is closely linked to the progress of society. A vigorous enterprise must also be full of a sense of social responsibilities. We sincerely hope more and more enterprises will, like Johnson & Johnson, care for social development and progress.¹⁶⁶

It is precisely this sense of social responsibility that sets Xian Janssen's partnering model apart from the *laissez faire*, bottom-line orientation of most Western enterprises. By embracing, rather than avoiding these responsibilities, the company has set an important standard for placing long-term, "strategic" mutual interests above its considerations for quarterly profits.

By making the community its priority, Xian Janssen has paved the way for its parent company to earn the social trust that seems to preceed market acceptance in *guanxi*-based economies like China. If one of the world's 50 largest corporations is willing to follow Xian Janssen's model of community investment in China, it is possible that other foreign invested companies would also benefit by such an approach.

History teaches us that the resiliency of the Chinese cultural identity and world view should be respected at the outset by any foreigner wishing to enter the Chinese world.

¹⁶⁵Strategic Partnership brochure, 1995.

¹⁶⁶Zhao Tongbin, Minister of Health, quote taken from Johnson & Johnson signing ceremony as reported in "Strategic Partnership" brochure, p. 2.

After four thousand years of collective experience, the identity of Chinese civilization has managed to remain intact, if not unchanged. Any foreign idea has had to commit itself to the test of time in order to find its place within the Chinese universe. Buddhism seems a fitting example, as beliefs and practices of this foreign tradition were adopted only after long years of exposure and manipulation by the Chinese themselves. Similarly, both Mongol and Manchu invaders were able to reign over feudal dynasties in China only after the passage of time and their own gradual envelopment into Chinese culture. It seems that foreign ideas can indeed exert influence in China, but only after an extended presence and eventual willingness to be made over through acquiring distinctly Chinese characteristics themselves.

Xian Janssen is useful as a lens for understanding China's growing integration into the world economy because of its ability to be sensitive to its Chinese environment. Xian Janssen's success, while economically significant, is best measured by the value and trust that Chinese officials and consumers have been willing to give it. As a Western joint venture, Xian Janssen has attained economic success only through measured commitment to its Chinese partners, bureaucratic regulators, and consumers. The company is not only one of the most profitable ventures in the pharmaceutical industry, but its products have gained household name recognition, and the company has twice been ranked as the country's best joint venture by Chinese officials.

As a model for a people-oriented, cross culturally literate enterprise, the Xian Janssen experience suggests that China need not remain an enigma for all foreign investors. The ability to influence and affect change in China has been possible for the company, even within the sometimes unswerving dedication to tradition and Chinese culture. Tu Wei-ming states that Chinese culture is not static, but is in fact a flowing identity, similar to the currents in a stream :

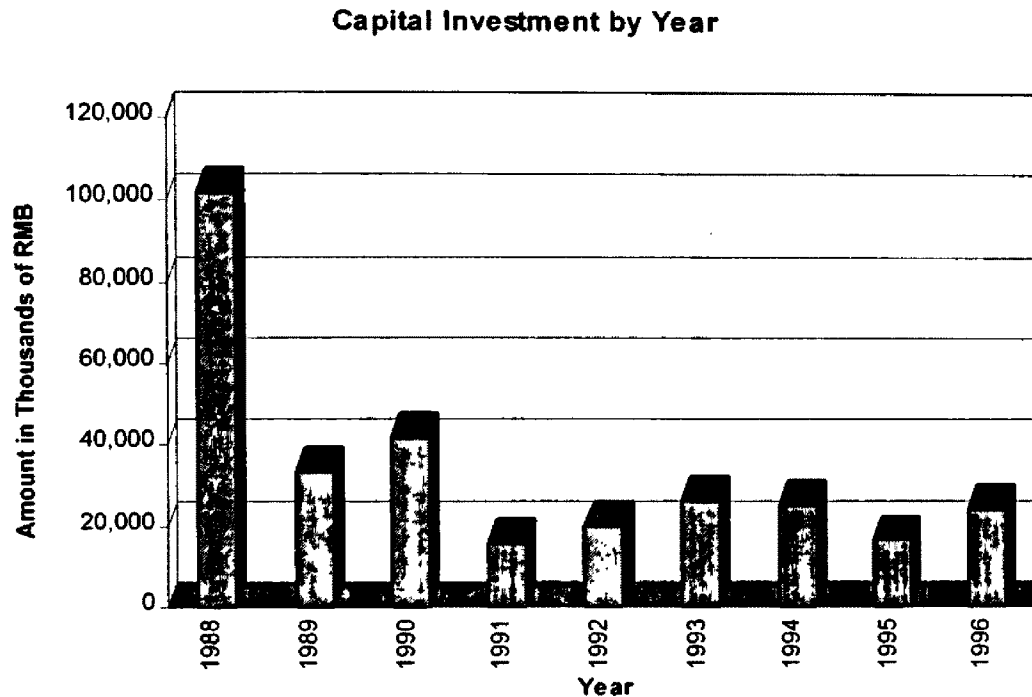
...If we take seriously the image of a "majestic flowing stream," we must acknowledge that these great outside influences altered this stream at various points. As the stream moves on, the new forces may move forward more or less intact, swerve off into small eddies and side pools, form new currents through interaction with older ones, or be overwhelmed by new currents entering farther down the stream.¹⁶⁷

¹⁶⁷ "Cultural China," p. 4.

Thus, Chinese culture has never been a static structure, but rather a dynamic, constantly changing flow of identities. By bending with the dominance of the stream, Xian Janssen has been a complimentary current in the momentous flow of China's reform process. For its part, China has also benefited by the flow of many new incoming streams, gaining momentum and dynamism in its flow. With the confluence of East and West in the scheme of global economic networks, Xian Janssen Pharmaceutical, Ltd. Has proven to be a successful model of strategic, cross cultural partnering in the Chinese context.

IX - TABLES AND CHARTS¹⁶⁸

A - CAPITAL INVESTMENT BY YEAR

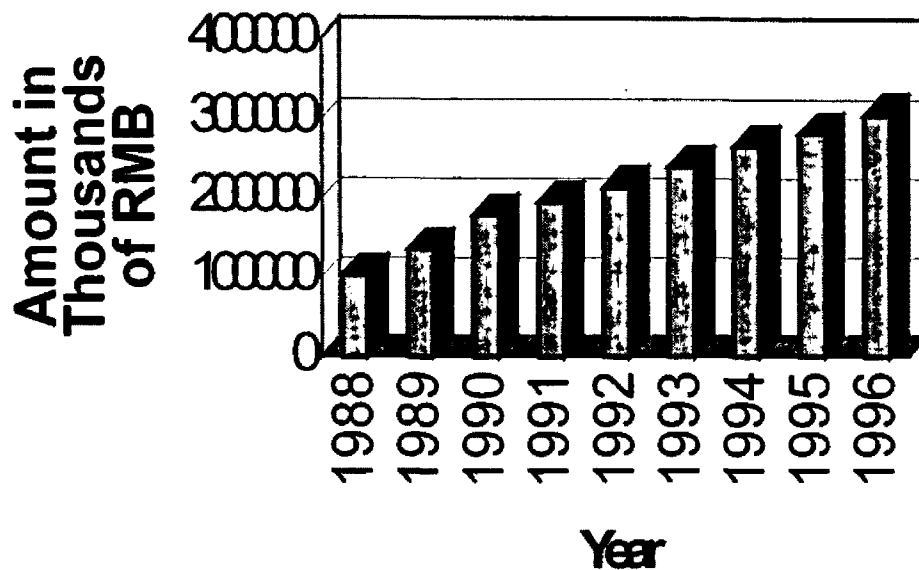


1988	101,884
1989	33,574
1990	41,945
1991	15,807
1992	20,003
1993	26,033
1994	25,126
1995	16,432
1996	23,848

¹⁶⁸ The majority of economic information for this study's tables and charts was provided to the author by the Xian Janssen Public Relations Department on the understanding that it was to be reported on only in general terms. It is the author's assumption that the figures as recorded in the company's financial department have not been adjusted according to exchange value of the RMB over time. A more thorough economic assessment might consider currency rates between 1988 and 1996, which have risen from 4:1 to 8.31 to the US dollar in that time period.

B - TOTAL CAPITAL INVESTMENT BY YEAR¹⁶⁹

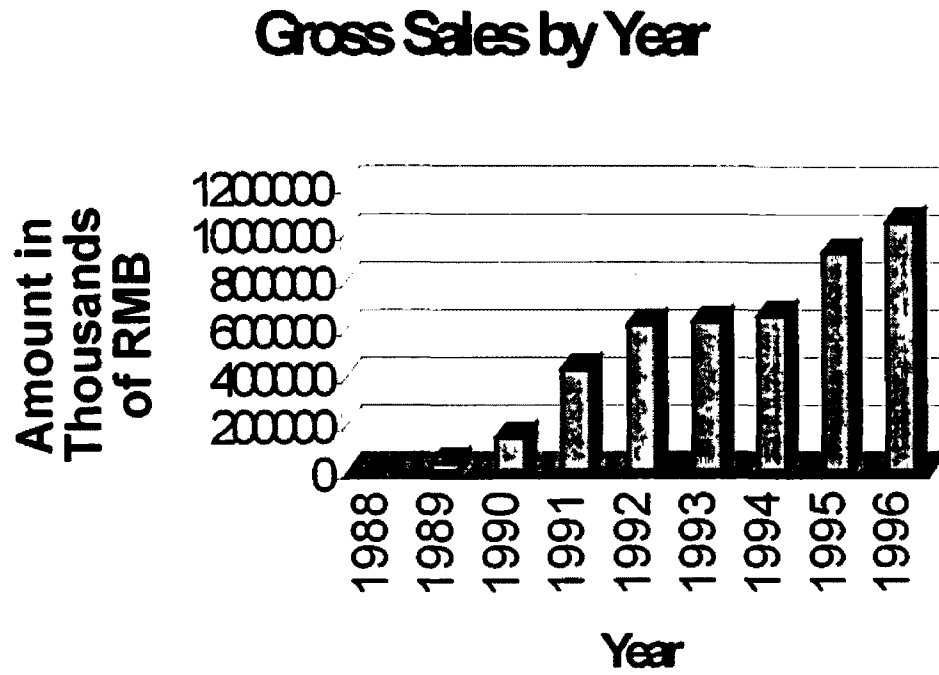
Cumulative Capital Investment



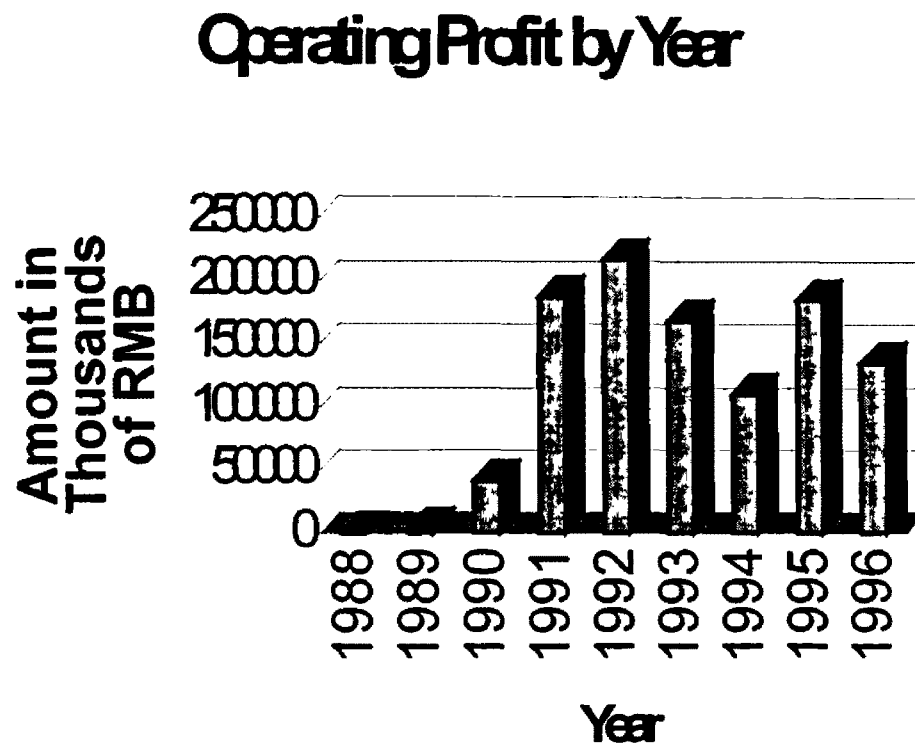
1988	101,884
1989	135,458
1990	177,403
1991	193,210
1992	213,213
1993	239,246
1994	264,372
1995	280,804
1996	304,652

¹⁶⁹ Please note that any deviation in value of these figures is subject to the validity of the internal information provided to the author. While some figures are not in perfect keeping with figures on the previous chart, I have also allowed for the possibility of different sources of information reporting differently on adjustments for inflation and the changing exchange value of the RMB.

C - GROSS SALES FIGURES BY YEAR



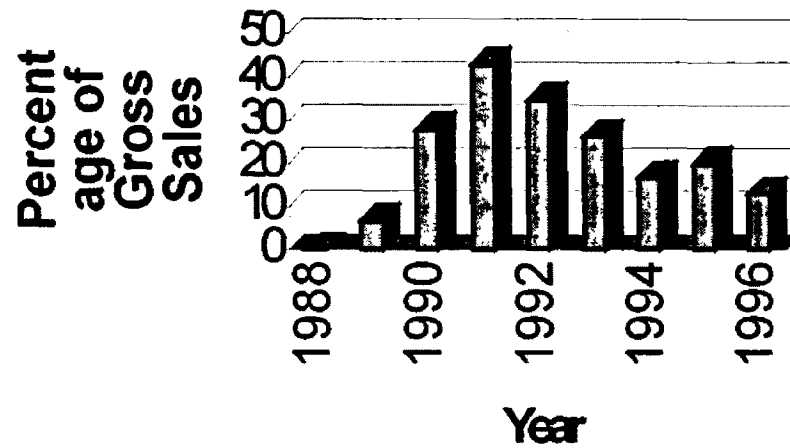
1988	0
1989	36,396
1990	147,053
1991	433,867
1992	621,695
1993	635,523
1994	655,819
1995	922,340
1996	1,053,555

D - OPERATING PROFIT BY YEAR

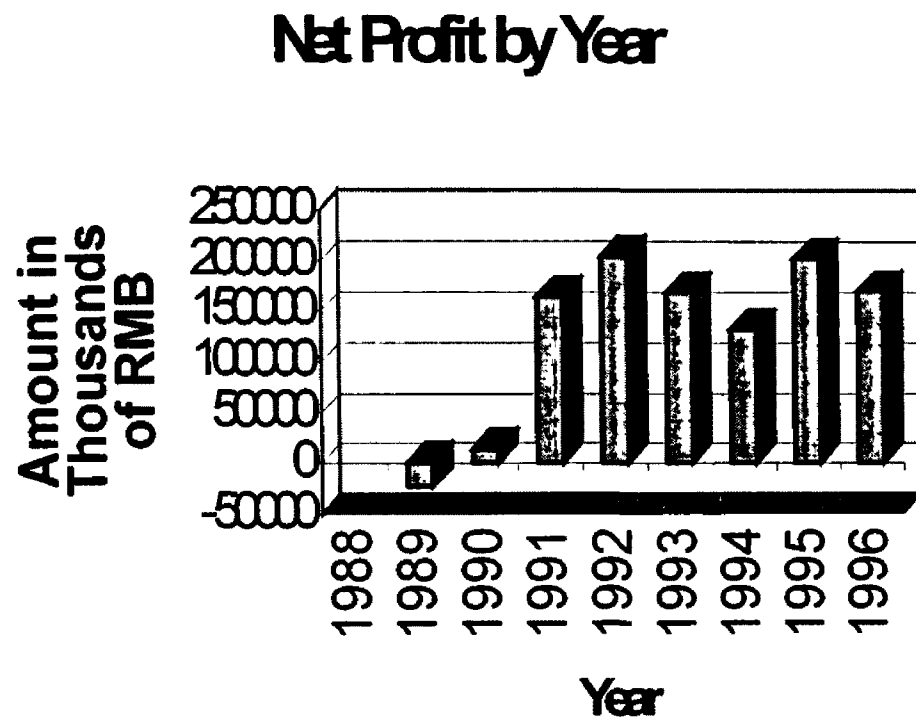
1988	0
1989	2,444
1990	40,971
1991	187,062
1992	216,091
1993	168,042
1994	109,628
1995	184,519
1996	135,504

E - OPERATING PROFIT AS A % OF GROSS SALES BY YEAR

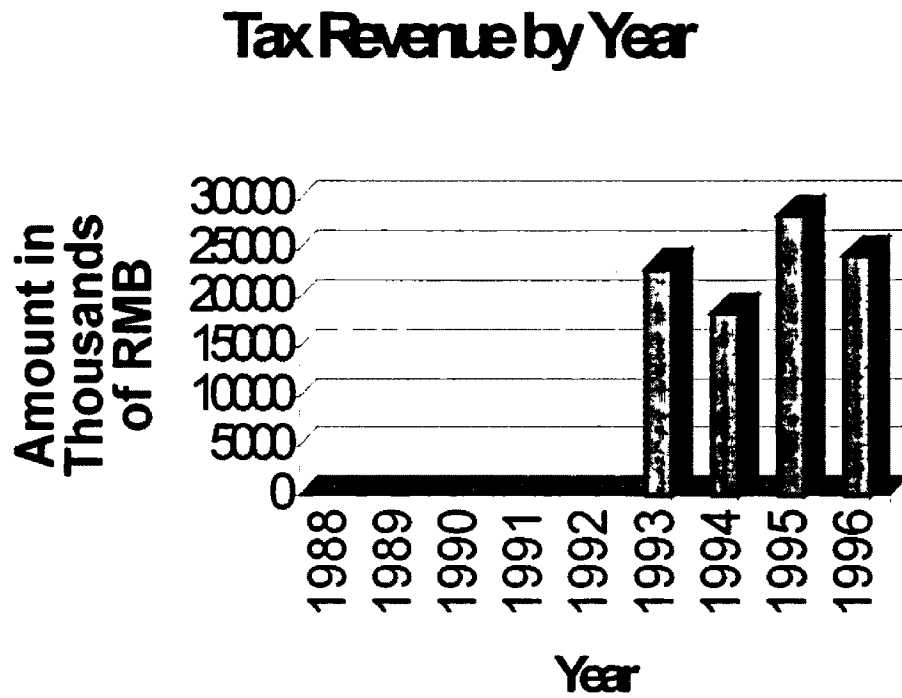
Operating Profit as a Percentage of Gross Sales



1988	0.0
1989	6.7
1990	27.9
1991	43.1
1992	34.8
1993	26.4
1994	16.7
1995	20.0
1996	12.9

F - ANNUAL NET PROFIT FIGURES

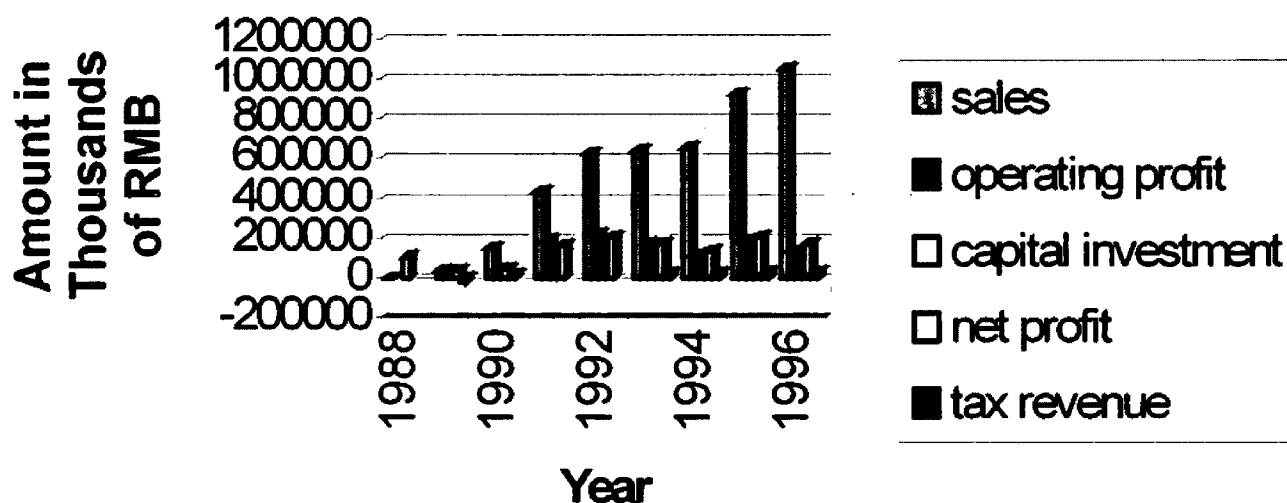
1988	n/a
1989	-23,362
1990	13,880
1991	164,008
1992	204,562
1993	168,722
1994	131,555
1995	201,888
1996	170,019

G - TOTAL TAX REVENUE CREATED BY YEAR

1988	n/a
1989	n/a
1990	n/a
1991	n/a
1992	n/a
1993	23,007
1994	18,530
1995	28,434
1996	24,288

H - XIAN JANSSEN ECONOMIC HISTORY

Xian Janssen Economic History



	1988	1989	1990	1991	1992	1993	1994	1995	1996
sales	0	36,396	147,053	433,867	621,695	635,523	655,819	922,340	1,053,555
operating profit		2,444	40,971	187,062	216,191	168,042	109,628	184,519	135,504
capital investment	101,884	33,574	41,945	15,807	20,003	26,033	25,126	16,432	23,848
net profit		-23,362	13,880	164,008	204,562	168,722	131,555	201,888	170,019
tax revenue						23,007	18,530	28,434	24,288

X - TIMELINE¹⁷⁰

¹⁷⁰ This timeline is provided merely to show the general interplay of events in China's reform process and the various developments that shaped Xian Janssen's creation and development. It is useful as a tool to interpret the "lead-lag" relationship that the company has had in reacting to and promoting change in Chinese business policy. I have shown here only the key developments in China's economic reform and in company history without trying to provide a detailed historical timeline of either. As the historical events of the latter nineties have expanded to such a great degree, I have here omitted any great study of annual political changes after 1994. This is not to say that events in China no longer affect the company, but that many of the key elements to change during the company's crisis period had already occurred, and therefore additional comments on the political economy have been omitted after this date.

INTERPLAY OF EVENTS:

A Timeline Of China's Economic Reform & Xian-Janssen's Development

CHINA TIMELINE	DATE	XIAN-JANSSEN TIMELINE
-Deng Xiao Ping returns to prominence after his banishment to the countryside at the start of the Cultural Revolution	1973	
-Sept. 9: Mao Zedong dies -Expected to be Mao's heir, Deng is again deceived, overlooked as Mao's successor -Oct. 24: Hua Guofeng declares himself Mao's successor, launching a rally against the "Gang of Four," marking the end of the Cultural Revolution	1976	
-Central Committee restores Deng to prominence again, making him Deputy Chairman of the CCP and Vice Premier of the State Council	1977	
-Nov. 19: Posters denouncing Chairman Mao as the cause of the Cultural Revolution and Deng's banishment appear on Beijing's Democracy wall, giving Deng momentum to instigate reforms. -Dec. 18-22: Third Plenum of the 11th Central Committee: Reform begins with Deng's new leadership. Market reforms are encouraged in the countryside and trade is opened to the outside world.	1978	
	1979	-Summer-Tianjin pharmaceutical meeting to encourage foreign trade -Janssen N.V. sends two representatives to Tianjin to seek opportunities -Oct.: Hangjiang Factory makes compensation trade proposal to Janssen N.V.
	1980	-Janssen sends delegation to Hangjiang, Shaanxi, to investigate cooperative trade agreement. -CBP-01 Signed in Hangjiang
-June: 6th Plenum--Mao is attacked for his doings in the Cultural Revolution, but his status as a Party leader remains intact.	1981	-CBP-01 Technology Transfer and Operations are successful, with some management oversight and labor problems evident. Decision to pursue a formal JV investment is made.

-12Th National Congress meets, pushing reform forward and appointing Hu Yaobang as General Secretary of the CCP	1982	-Oct. 1-10: Dr. Janssen meets eventual JV partners -Partnership Proposal submitted to SPC
-Oct.: 2nd Plenum of 12th Central Committee launches campaign against "spiritual pollution," which conservatives saw as a result of over-hasty reform paces. Bourgeois ideals and feudal traditions are under scrutiny.	1983	-July 7: SPC approves JV proposal
Oct.: 3Rd Plenum of 12th Central Committee marks a swing back to the reform agenda. Rules on job security, hiring, and firing altered with an attack on traditional "egalitarianism" Price controls begin to be lifted.	1984	
-New surge of foreign investment, as AMC forms Beijing Jeep, and 800 other ventures are started by anxious American companies. -April 20: Belgian Prime Minister visits Xian -Sept. 16: Deng's earlier calls for abolition of lifelong tenure are enforced in the Central Committee, which forces the resignation of 64 members on the grounds of old age. -Li Peng elected to the Politburo at the Fifth Plenum	1985	-April 12: SPC approves research feasibility and design for JV company -April 19: signing ceremony for JV contract, technology transfer, and XJP constitution -Sept. 6: State Foreign Trade Dept. approval -Oct. 22: State Industry-Commerce Admin. Bureau issues business licence to XJP (Founding Date) -Oct. 25-26: Founding Meeting for XJP Board of Directors in Xian

<p>Aug. 26: Belgium's Prince Philip visits XJP construction site</p> <p>-Sept.: 6th Plenum emerges as a success for radical reformers. Democracy, legality, freedom in the arts, and economic liberalization are encouraged.</p> <p>-Nov.-Dec.: Major student demonstrations take place in many cities, starting in Hefei, and moving to Beijing and Shanghai.</p> <p>-Dec. 19-21: Thousands of students take part in protests in Shanghai</p>	<p>1986</p> <ul style="list-style-type: none"> -March 18: 2nd Board Meeting held in Xian -March 29: SPC sanctions XJP project design -June 3: XJP foundation laying ceremony -June 4: Dr. Janssen meets with Shaanxi Province Chairman Li Qingwei to assess progress -Oct. 7: 1st 11 Chinese trainees sent to Belgium -Oct. 7-10: 3rd Board Meeting: Paul Janssen Educational Foundation established -Dec. 4: State Drug Admin. Bureau guarantees 20% of Chinese invested capital and introduces China Medical Industry Company as XJP's new partner
<p>-Jan. 6: Government press release discourages "bourgeois liberalization, and criticizes elements of leadership for encouraging it.</p> <p>-Jan. 16: Hu Yaobang steps down from post as CCP General Secretary as scapegoat for student protests. He is replaced by Zhao Ziyang.</p> <p>-June 30: Governor of Antwerp, Belgium visits XJP site & Establishment of sister city relationship between Antwerp and Xian</p> <p>-13th Party Congress convenes, focusing attention on the need to continue economic reform. Party Commission for Discipline Inspection is inspired to fight increased corruption. Zhao Ziyang confirmed as General Secretary and Li Peng is placed on the Standing Committee of the Politburo.</p>	<p>1987</p> <ul style="list-style-type: none"> -March 1: No. 11 Construction Company secures bid and opens XJP construction site -July 1-3: 4th Board Meeting--Shaanxi Vice Chairman Zhang Bing nominated to XJP GM. -Oct. 31: XJP first labor contract signing ceremony with labor union. First 75 contract workers signed.

<p>-Zhao Ziyang's reform agenda is dominant, with increased artistic and economic freedom.</p> <p>-With discussions about releasing price controls, panic buying takes place, leading to widespread inflation.</p> <p>-Ministry of Supervision reestablished to fight corruption</p> <p>-Li Peng begins to openly state the need to control inflation, indirectly criticizing Zhao Ziyang's reform management.</p> <p>-Dec.: 2-Week exhibition of nude paintings takes place in Beijing</p>	1988	<p>Jan. 19-20: 5th Board Mtg.: China Medical Industry Company admitted as #4 partner on Chinese side</p> <p>-XJP signs loan of 45 million RMB with Bank of China for 7 1/2 years</p> <p>-Sept.: 1st J & J audit of XJP</p> <p>-Oct. 11-13: 7th Board Mtg.—Dr. Janssen expresses appreciation for progress</p> <p>-Nov.: The Janssen Science Committee, China Branch, is established with Paul Janssen and Dr. Wu Jie Ping as Chairpersons</p>
<p>-Corruption and inflation now seen as serious consequences of reform that need to be curbed.</p> <p>-April 15: Hu Yaobang dies, student protests begin as mourning over his death</p> <p>-May 13: Hunger Strikes and prolonged protests begin at Tiananmen</p> <p>-May 18: Li Peng televises meeting with various student leaders with no compromise reached</p> <p>-May 19: Martial Law declared by Li Peng, PLA attempts to enter city but is turned back by mobs.</p> <p>-June 3-4: Tiananmen massacre</p> <p>-June 24: 4th Plenum issues official statement about rebellion and Zhao Ziyang is removed as Gen. Secretary of CCP as a liberal reformer</p> <p>-June & July: Political crackdown on student leaders</p> <p>-November: Deng voluntarily withdraws his position as Chairman of Military Commission and CCP. Replaced by Jiang Zemin</p>	1989	<p>-March 4: Capital construction of XJP plant comes to an end</p> <p>-Solid agent workshop begins first production test runs successfully</p> <p>-March 4-6: 8th Board Mtg.—Zhang Bin resigns as Chairman, and members approve plan for Shanghai office and discuss import and product pricing strategies</p> <p>-March 27: Quality Certificate and Production License awarded XJP by Health Dept of Shaanxi Province</p> <p>-March 31: PRODUCTION BEGINS</p> <p>-April 12: Wrapping & Packaging workshop begins</p> <p>-May 4: BUSINESS OPENS with permit from Industry-Commerce Admin. Bureau and first products sold on market.</p> <p>XJP 2ND HISTORICAL PHASE BEGINS--89 CRISIS</p> <p>-May and June: expatriate managers removed to Hong Kong due to political turmoil</p> <p>-October: J&J audit passes after turmoil</p> <p>-Nov. 20-22: 9th board meeting in Belgium. Dr. Janssen nominated as honorary president to steer through difficult time</p>

<p>-January: Martial Law lifted in Beijing.</p> <p>-Asian Games held in Beijing—Deng remains out of public view.</p> <p>-Inflation dives from 18 to near 1%.</p> <p>-GDP also down to merely 3% growth.</p>	1990	<p>-March: 7 out of 8 chosen drugs were put into production</p> <p>-June 5-6: MOH 3 person delegation uses XJP as an example of foreign partnerships</p> <p>-July 2-3: 10th Board Meeting. Decision to open offices in Beijing and Guangzhou</p> <p>-Premier Li Peng receives XJP president Shen Rulin, praising the company's advertising "propaganda"</p> <p>-Dec. 3: 11th Board Meeting. Sales and Marketing center is changed to Beijing</p>
<p>-After plummeting to less than \$5 billion in 1989, investment begins to rise again, ending at nearly \$13 billion.</p> <p>-April 8: Zhu Rongji, a noted reformer, is promoted to vice premier.</p>	1991	<p>-May 1-2: 12th Board Meeting. Forex and Housing problems top the agenda. Export possibilities discussed as an option for forex income.</p> <p>-May 4: XJP Grand Operating Ceremony attended by Dr. Janssen and 350 guests from Shaanxi. Marks the rededication to moving business forward.</p> <p>-May 16: Janssen Research Council, China Branch holds meeting about opportunities for research cooperation with MOH Minister Chen Min Zhang</p> <p>-June: XJP ranked #52 among China's largest foreign invested enterprises</p> <p>-July: -July: Jerry Norskog arrives in Xian as interim 5th Executive President of XJP.</p> <p>-July: XJP donates 300,000RMB to famine-stricken areas in Southern China</p> <p>-Sept. 26: MOH celebrates Safety Education Program with Xian-Janssen, who donates 300,000 RMB to the program.</p> <p>-Nov. 6: Special Board Mtg. in Belgium formerly appoints Jerry Norskog as Executive President.</p>

<p>-February: Deng reappears for a tour through southern China's Special Economic Zones. Capitalism now seen to be a "supplement" to Socialism, with Reform now committed to at least the next 100 years. Political restructuring again takes place as conservative leaders are demoted.</p> <p>-April: CCP's position of dominance is emphasized in the reform process. Deng claims that the use of martial law will again be undertaken to stop potential turmoil.</p> <p>-Jiang Zeming is personally referred by Deng as his chosen successor, while many fear the instability that Deng's death might bring.</p>	<p>1992</p> <p>-January: Board session in Guangzhou marks a continued commitment between Janssen Belgium, Hangjiang factory, and Xian-Janssen to meet new needs</p> <p>-Feb. 20: 14th Board Meeting held in Bangkok. Forex balance schemes top agenda, along with need for employee housing reform.</p> <p>-March 5-7: 50 top managers in XJP take part in first training camp to address needs for new situations in Shaanxi's Zhang Ba Gou area.</p> <p>-March 15-18: 1st Suppliers Workshop held in Xian. XJP quality supply scheme begins.</p> <p>-May 6: China Economic Daily publishes results of 5th annual Top Ten JV competition. XJP posted a 150% invested profits tax rate and 830,000 labor productivity rate, boosting it to a 4th place finish. Dr. Janssen receives award in Beijing from Vice-Premier Tian Jiyun.</p> <p>-May 27: XJP issues a donation of medicine and 200,000 RMB to children in poor areas of 8 outlying provinces.</p> <p>-June 4: China Economic Daily ranks XJP at 308th place in sales volume and 114th place in total profit rate among China's 500 largest industrial enterprises.</p> <p>-June: XJP appraised as #1 among China's 500 largest pharmaceutical enterprises.</p> <p>-July 9: XJP donates 200,000 RMB to China's Olympic Games delegation for the purpose of buying medical supplies.</p> <p>-Oct. 5-9: XJP audited by J & J for safety and sanitation and awarded Class B certificate.</p> <p>-Oct. 22: XJP donates 20,000 RMB to Xian's Children's Welfare Institution</p> <p>-Dec. 12-15: 16th Board Meeting held in Guangzhou. Agreement to increase 40 million RMB as registered investment in proportion to each sides ownership. Both sides agree to extend their JV contract to 50 years.</p>
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<p>-Inflation again reaches double figures, ending at 10% for the year.</p> <p>-Investment also up, with nearly 60 billion dollars recorded for the year.</p> <p>-GDP growth levels out at near 12% growth.</p>	1993	<p>March: XJP arranges training workshop in Singapore for new sales managers. The Eagle Culture is established to encourage sales force.</p> <p>-April: XJP awarded #1 venture in Shaanxi Province with best management benefits</p> <p>-June: Central Government source appraises XJP as #314 among China's largest industrial enterprises in terms of sales volume, and #124 for profit rate. XJP's overall performance was rated as #28.</p> <p>-June: State Sanitation Bureau awards XJP with advanced distinction.</p> <p>-July: The 6th annual Top Ten JV Ceremony is held in Shanghai and ranks XJP as #1 for its performance in 1992.</p> <p>-July 11-20: XJP holds its first Industry-Commerce Partnership discussion in Singapore.</p> <p>-July: XJP sends 20 Chinese dermatological experts to 1993 International Academic Conference in Bali, Indonesia.</p> <p>-August: XJP invites top health industry officials to its Hangjiang operation to provide free training on the international GMP program, thereby allowing government agencies to learn standards and procedures consistent with international conventions.</p> <p>-Sept. 30: Paul Larssen, CEO of J & J, visits XJP, inspecting the workplace and praising workers for their achievement of reaching #1 in China.</p> <p>-Oct. 1: Beijing launching of Sporanox, a new Janssen product. CEO Larssen attends meeting.</p> <p>-Oct. 22: XJP President Jerry Norskog contributes 15,000 RMB on behalf of the company and 1,000 RMB in his own name to Kong Jun, an officially sanctioned "hero" policeman for treatment of wounds and burns incurred on duty.</p> <p>-Oct. 29-Nov. 2: XJP and the State Pharmaceutical Admin. Bureau sponsor the <u>1993 GMP Training Workshop for High-Ranking Pharmaceutical Officials</u>. Nine XJP managers give 13 different presentations on how to develop the GMP system.</p> <p>-Nov. 11-15: 16th Board Meeting held in Beerse, Belgium. 3rd Board is created with Madam Zheng Hong as nominated as Chairman. Forex balancing options discussed.</p> <p>-December: XJP creates Janssen Dermatological Research Foundation at Beijing Medical University</p>
<p>-220,000 JV's now registered in China, up from 20,000 in 1991.</p> <p>-Legal enforcement and IPR laws becoming a major issue with foreign investors</p>		

- 1994
- Jan. 3-5: XJP holds '94 Fragrant Hill Eagle Red Army Spirit Training Camp in Beijing.
 - March 26: XJP contributes 2 million RMB to the International Exchange Center of the State Health Dept., establishing the Wu Jie Ping Medical Research Premium and the Paul Janssen Research Premium.
 - April 5: XJP donates 300,000 RMB to the restoration efforts of the Huangdi Mausoleum and other public funds.
 - April 15: XJP awarded #1 enterprise in Shaanxi province for environmental protection.
 - June 18: 7th annual Top Ten Joint Venture Awards held in Shenzhen. XJP becomes the only company to win the top honor for two consecutive years.
 - June 18: 17th Board Meeting is held in Seoul.
 - Registration of exported products to Southeast Asia is required. Decision to donate to Shaanxi Province's Social Security and contract for employee housing project.
 - June 23: 2nd XJP Industry-Commerce Partnership meeting held in Australia.
 - July 24: Triatop, XJP's new dandruff shampoo product is launched in Lhasa, Tibet.
 - July-August: Internal Quality Improvement Drive is started.
 - July: After 3 years of cooperative training and investment, te Daktarin aluminum tubes are produced by XJP trained suppliers. Local packaging quality can now be insured, and the company benefits from export revenue to balance forex.
 - July-August: J & J internal audit is passed.
 - Aug. 21-29: '94 Janssen Academic Symposium on Digestive Dynamics is held in Holland. XJP sponsors 8 different Chinese physicians to attend.
 - August: XJP contributes 100,000 RMB to the Southern China Sports Meet for Disabled People.
 - Sept. 23-25: 2nd Suppliers Quality Workshop held in Shanghai.
 - Oct. 10: New product Prepulsid is launched in Xian.
 - Oct. 14-16: The first Wu Jie Ping and Paul Janssen Medical Research Premium Ceremony was held in Hangzhou.
 - Oct. 31: J & J Safety and Sanitation audit is passed.
 - Oct. 19-22: '94 GMP program for high-level pharmaceutical officials is held in Xian.
 - Oct.: XJP's largest computer system to date is installed in Beijing as IBM AS/400 with BPCS software system.
 - Nov. 8: Dermatological Research Foundation established with the Derm. Committee of China's Medical Society. Annual fund of 200,000 RMB donated for 4th year.
 - Nov.: J & J Frameworks for Leadership is held in

	<p>Beijing and Shanghai. XJP is discussed as a model for other J & J ventures in China.</p> <p>-Nov. 15: 18th Board Meeting held in Shanghai. China's Labor act is discussed, along with reform in the medical sector.</p> <p>-Nov. 22: XJP president Jerry Norskog contributes \$10,000 to the Ministry of Health on behalf of J & J for staging a pain-killing program for cancer sufferers.</p> <p>-Dec. 19: Prepulsid is awarded an administrative protection license by the State Medical Administrative Bureau, protecting the product for 7 1/2 years in China's market.</p> <p>-Dec.: In cooperation with the State Council of the Communist Central Committee, XJP contributes 600,000 RMB to the development of the Tibetan Autonomous Region.</p>
1995	<p>-Jan.: Livostin, a new nasal spray product, is marketed at a convention in Beijing and Shanghai for release in April.</p> <p>-Feb. 9: Janssen Scientific Committee, China Branch holds its board meeting in Beijing.</p> <p>-April: XJP welcomes noteworthy leaders, such as Wu Jie Ping, and Liu Huaqing make visits to Xian-Janssen, exclaiming that the country needs more of the same type of venture.</p> <p>-May: China's '94 Product Commendation Ceremony held in Beijing. XJP's Motilium receives #8 in market efficiency, and #6 in customer satisfaction.</p> <p>-May: 19th Board Meeting held in Orlando, U.S.A. Beijing's office relocation is discussed, along with the labor contract.</p> <p>-May 18: Qiao Shi, Chairman of the Standing Committee of the Politburo of the CPC visits XJP.</p> <p>-June: XJP #1 in Shaanxi for industrial treatment of pollution.</p> <p>-June: Shaanxi awards XJP best foreign currency creator through exports.</p> <p>-June: According to official sources, XJP ranks as China's 409th largest enterprise, both public and private.</p> <p>-June 21: XJP ranked #1 pharmaceutical enterprise in China.</p> <p>-July 1: For fourth consecutive year, XJP is recognized as a Top Ten JV, placing 2nd after two years at #1. The ceremony is held in Xian and sponsored largely by XJP.</p> <p>-</p> <p>-Strategic partnership, other?</p>
1996	<p>May: Official sources reveal that XJP will again be named #1 JV in China, for the third time. No other company has won the distinction more than once.</p>

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